

2004 ANNUAL REPORT



## ABOUT THIS REPORT

This annual report provides information about the year ended 30 June 2004 and has been prepared in accordance with the listing requirements of Australian Stock Exchange Limited, the Corporations Act 2001, accounting standards issued by the Australian Accounting Standards Board, other mandatory professional reporting requirements (including Urgent Issues and Consensus Views) and relevant guidance statements issued by authoritative non-statutory organisations. Where relevant, events taking place in the period subsequent to the balance date have been included. **The report includes a summary of the operations of the main business divisions comprising the Wesfarmers group as detailed below.**

### WESFARMERS LIMITED



## DIRECTORY

### Executive directors

M A Chaney AO  
*Managing Director  
and Chief Executive Officer*

R J B Goyder  
*Deputy Managing Director  
and Chief Financial Officer*

D A Robb  
*Executive Director and  
Managing Director of  
Wesfarmers Energy*

G T Tilbrook  
*Executive Director,  
Business Development*

### Non-executive directors

T R Eastwood AM  
*Chairman*

C B Carter

P A Cross

T J Flügge AO

L A Giglia AM

J P Graham

R D Lester

C Macek

D C White

### Company Secretary

L J Kenyon

### Audit Committee

D C White  
*Chairman of the committee*

T J Flügge AO

J P Graham

R D Lester

C Macek

### Nomination and Remuneration Committee

T R Eastwood AM  
*Chairman of the committee*

C B Carter

P A Cross

T J Flügge AO

L A Giglia AM

### Registered office

11th Floor,  
Wesfarmers House  
40 The Esplanade, Perth  
Western Australia 6000

### Telephone:

Within Australia:

(08) 9327 4211

Outside Australia:

(+61 8) 9327 4211

### Facsimile:

Within Australia:

(08) 9327 4216

Outside Australia:

(+61 8) 9327 4216

### Website:

[www.wesfarmers.com.au](http://www.wesfarmers.com.au)

### Share registry

Computershare Investor  
Services Pty Limited  
Level 2  
45 St George's Terrace  
Perth WA 6000

### Investor inquiries:

### Telephone:

Within Australia:

1300 557 010

Outside Australia:

(+61 3) 9415 4000

### Facsimile:

Within Australia:

(08) 9323 2033

Outside Australia:

(+61 8) 9323 2033

### Website:

[www.computershare.com.au](http://www.computershare.com.au)

## COMPANY HISTORY

Wesfarmers, one of Australia's largest public companies, is headquartered in Perth, Western Australia.

The company's origin in 1914 as a Western Australian farmers' co-operative determined its early focus on the provision of services and merchandise to the rural community. Over the past two decades we have diversified, greatly broadening our business and geographical base.

Since our public listing in 1984, we have recorded strong growth in assets and profits.

## GROUP OBJECTIVE

The primary objective of Wesfarmers is to provide a satisfactory return to shareholders.

The company aims to achieve this objective by:

- satisfying the needs of customers through the provision of goods and services on a competitive and professional basis;
- providing a fulfilling and safe working environment for employees, rewarding good performance and providing opportunities for advancement;
- contributing to the growth and prosperity of the countries in which it operates by conducting existing operations in an efficient manner and by seeking out opportunities for expansion;
- responding to the attitudes and expectations of the communities in which the company operates and placing strong emphasis on protection of the environment as part of its corporate social responsibility obligations; and
- acting with integrity, honesty and cultural sensitivity in dealings both inside and outside the company.

## ANNUAL GENERAL MEETING

The 23rd annual general meeting of Wesfarmers Limited will be held at the Burswood Convention Centre, Great Eastern Highway, Burswood, Western Australia on Monday 8 November 2004 at 2.00 pm.

## CONTENTS

<i>Who we are</i>	<i>1</i>
<i>Performance highlights</i>	<i>2</i>
<i>Financial overview/summary</i>	<i>3</i>
<i>Chairman's letter to shareholders</i>	<i>4</i>
<i>Significant events since listing</i>	<i>6</i>
<i>Managing Director's review of operations</i>	<i>8</i>
<i>Portfolio of diversified businesses</i>	<i>14</i>
HARDWARE	16
ENERGY	20
INDUSTRIAL AND SAFETY	24
INSURANCE	28
CHEMICALS AND FERTILISERS	32
OTHER ACTIVITIES	36
<i>Board of directors</i>	<i>38</i>
<i>Corporate governance statement</i>	<i>40</i>
<i>Our people, our communities</i>	<i>48</i>
<i>Investor information</i>	<i>52</i>
<i>Financial statements</i>	<i>53</i>

# WHO WE ARE

Wesfarmers Limited celebrates its 20th year as a listed public company. In this period the company has grown from a small farmers' co-operative into a major Australian industrial conglomerate.

Wesfarmers has operating revenue exceeding \$7.7 billion and has historically been a leader in providing high shareholder returns. It is involved in a diverse range of businesses; employs approximately 30,000 people, mainly in Australia and New Zealand; and has more than 100,000 shareholders.

On 30 June 2004 Wesfarmers' market capitalisation exceeded \$11 billion.

## OPERATING REVENUE\*

*\$7.7 billion<sup>+</sup>*

\*excluding revenue from  
sale of Landmark

## EMPLOYEES

*30,000<sup>+</sup>*

## SHAREHOLDERS

*100,000<sup>+</sup>*

## MARKET CAPITALISATION

*\$11 billion<sup>+</sup>*

# PERFORMANCE HIGHLIGHTS

## NET PROFIT

up **18%**

after goodwill amortisation  
excluding Girrah/Landmark

## EARNINGS PER SHARE

up **16%**

before goodwill amortisation  
excluding Girrah/Landmark

## DIVIDENDS

**140 cents**

per share

## CASH FLOW

**\$3.07**

per share

## OPERATIONAL HIGHLIGHTS

- Creation of a new insurance division, following the acquisition of Lumley's Australian and New Zealand insurance operations
- Sale of the group's rural services business, Landmark, realising a net profit of \$304 million
- Twelve new Bunnings warehouse stores opened across Australia and New Zealand, with seven more under construction
- Commitment of up to \$150 million for the establishment of the second Gresham Private Equity Fund

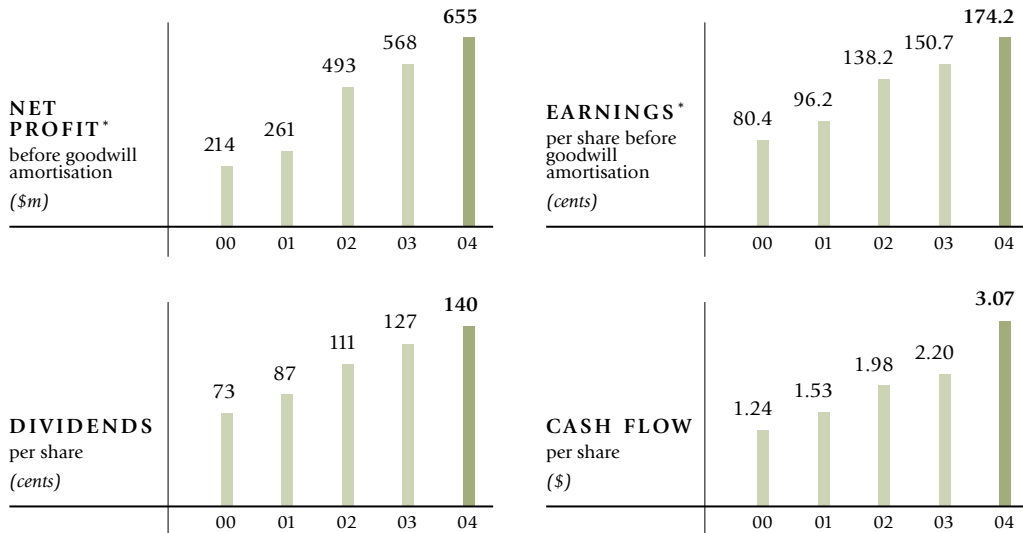
## POST-30 JUNE

- Commitment of \$290 million for the development of the Curragh North coal resource located in Queensland's Bowen Basin
- Sale of Sotico's jarrah business

## FINANCIAL HIGHLIGHTS

- Record net profit after goodwill amortisation of \$569.2 million (excluding Landmark sale profit), up 18 per cent
- Capital return to shareholders of \$2.50 per ordinary share, amounting to \$934 million
- Normalised earnings per share (before goodwill amortisation) up 16 per cent to \$1.74 (excluding Landmark sale profit)
- Full-year dividend up 10 per cent to \$1.40 per share

## FINANCIAL OVERVIEW



\*excludes earnings from the sale of the Girrah coal deposit in 2003 and the sale of Landmark in 2004

## FINANCIAL SUMMARY

		2004	2003	% change	
Operating revenue	\$m	8,407	7,753	8.4	▲
Net profit before interest and tax	\$m	1,283	854	50.2	▲
Net profit after tax before goodwill amortisation	\$m	959	624	53.6	▲
Net profit after tax after goodwill amortisation	\$m	873	538	62.2	▲
Net profit after tax and goodwill amortisation (excluding Girrah/Landmark sale)	\$m	569	482	18.1	▲
Dividends	\$m	527	480	9.8	▲
Total assets	\$m	7,271	6,418	13.3	▲
Net borrowings	\$m	1,514	892	69.7	▲
Shareholders' equity	\$m	3,331	3,765	11.5	▼
Capital expenditure on property, plant and equipment	\$m	258	218	18.3	▲
Depreciation and amortisation	\$m	280	292	4.1	▼
Earnings per share before goodwill amortisation	cents	255.1	165.7	54.0	▲
Earnings per share before goodwill amortisation (excluding Girrah/Landmark sale)	cents	174.2	150.7	15.6	▲
Dividends per share	cents	140	127	10.2	▲
Net tangible assets per share	\$	4.94	5.95	17.0	▼
Cash flow per share	\$	3.07	2.20	39.5	▲
Return on average shareholders' equity	%	24.6	15.0	64.0	▲
Gearing (net debt to equity)	%	45.5	23.7	92.0	▲
Net interest cover (cash basis)	times	30.9	17.6	75.6	▲

## CREATING WEALTH AND ADDING VALUE

		2004	2003
<b>Wealth creation</b>			
Total operating revenue	\$m	8,407	7,753
Total cost of materials, goods and services and other external costs	\$m	5,772	5,530
Total value-added, representing the wealth created by Wesfarmers	\$m	2,635	2,223
This created wealth was shared as follows:			
- to employees as salaries, wages and other benefits	\$m	866	915
- to governments as income tax, royalties and other taxes	\$m	536	398
- to lenders on borrowed funds	\$m	80	80
- to shareholders as dividends on their investment	\$m	527	480
- reinvested in the business as depreciation, amortisation and retained earnings	\$m	626	350

## Chairman's letter to shareholders

TREVOR EASTWOOD AM  
Chairman

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### IN BRIEF

*Record earnings and revenues were achieved in 2003/04*

*Board appoints Mr Richard Goyder to be Mr Michael Chaney's successor from July 2005*

*2004 marks the 90th anniversary of Wesfarmers' formation and 20 years as a listed company*

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### DEAR SHAREHOLDER

I am delighted to present the Wesfarmers 2004 annual report.

On behalf of the Board, it is pleasing to report that record earnings and revenues were again achieved in 2003/04.

A number of important transactions and developments took place during the year. These have re-shaped the structure of the company and further enhanced the spread of its diversified operations.

In the review by the Managing Director, Mr Michael Chaney, and the operational reports that follow, you will find details of the group's 2003/04 performance as well as information about a number of significant investments endorsed by the Board to ensure continuing profitable growth. I encourage you to read these reports.

The 2004 year marks two important milestones in Wesfarmers' history; the 90th anniversary of its formation and the completion of 20 years as a listed company.

Wesfarmers' activities have expanded substantially over this time through a combination of growth in existing operations and acquisitions of new businesses. The significant events in Wesfarmers' evolution since listing are detailed on pages six and seven of this report.

Prior to listing in November 1984, Wesfarmers was a farmers' co-operative valued at \$30 million. At the date of this report, the company is valued at over \$11 billion. The benefits of this for an individual shareholder are pleasing. Eight thousand dollars invested in the company in 1984, with re-investment of all dividends and capital returns, would now be worth about one million dollars.

Wesfarmers has achieved this outcome by continuing to focus on the very simple but effective objective of providing a satisfactory return to shareholders. The portfolio of businesses which make up the group has been, and will continue to be managed, with this strong financial focus.

#### DIVIDEND

The directors declared a fully-franked final dividend of 92 cents per share (last year 85 cents per share). This was paid on 30 August 2004 and lifted the full-year dividend to \$1.40 per share compared to last year's \$1.27, an increase of 10.2 per cent. At the time of declaring the final dividend, the directors elected to continue the suspension of the company's dividend investment plan.

#### CAPITAL MANAGEMENT

The company made a return of capital to shareholders of \$2.50 per fully-paid ordinary share during the year. This was made to return surplus funds to shareholders and to ensure that the company maintains an efficient capital structure. The payment, totalling \$934 million, was approved by shareholders at a general meeting held on 5 December 2003.

#### DIRECTORS

During the year, our Managing Director for the last 12 years, Mr Michael Chaney, made known his intention to retire in July 2005. Mr Chaney has made a very significant contribution to the development of the company. During his time as chief executive, Wesfarmers' value has increased more than tenfold and Mr Chaney has become one of Australia's most highly regarded business leaders.

In May 2004, the Board appointed Mr Richard Goyder to the position of Deputy Managing Director and he will become Managing Director upon Mr Chaney's retirement. It was pleasing that the Board was able to select Mr Chaney's successor from within the strong ranks of its senior management. Mr Goyder has demonstrated, during his 11 years with the group, that he is well equipped to take over leadership of the company.

A special welcome is extended to Mr David Robb, who joined the Board in July 2004 as an executive director. Mr Robb retains his responsibility as Managing Director of the energy division.

#### EMPLOYEES

I would like to acknowledge the important role played by all employees in the achievement of the 2003/04 result. Their skill, loyalty and commitment represents one of the major strengths of the Wesfarmers group. On behalf of the Board, I thank them for their dedication and excellent performance.

Yours sincerely



TREVOR EASTWOOD AM

Chairman

## Significant events since listing

### NOV 1984

Wesfarmers Limited listed on the Australian Stock Exchange trading at \$2.26 per share

84

### NOV 1986

Acquired remaining 33.3 per cent of CSBP & Farmers Ltd

86

### JULY 1988

Introduced new dividend plan

### NOV 1988

Commissioned a \$105 million LPG extraction plant at Kwinana, Western Australia

88

90

### FEB 1992

Increased shareholding in Bunnings Limited to 44.6 per cent

92

### APR 1994

Sale of Masters Dairy

### SEP 1994

Takeover of Bunnings Limited

94

85

### NOV 1985

Acquired a 50 per cent interest in investment bank, Gresham Partners Limited

87

### MAR 1987

Purchased the Charlie Carter supermarket chain

### APR 1987

1 for 3 bonus issue of Wesfarmers shares

### DEC 1987

Acquired a 9.7 per cent interest in Bunnings Limited

89

### JAN 1989

2:1 share split

### JULY 1989

Acquired Western Collieries Ltd

### SEP 1989

1:7 rights issue at \$4.25 per share raised \$90.9 million

91

### MAR 1991

Acquired 25 per cent interest in the Bengalla coal deposit in the Hunter Valley, New South Wales

Air Liquide WA (40 per cent- owned) commissioned a \$26 million air separation plant at Kwinana, Western Australia

### APR 1991

Acquired non-automotive LPG business of Gogas (Australia) Pty Ltd

### JUNE 1991

Acquired Federation Insurance, forming Wesfarmers Federation Insurance

93

### MAR 1993

Acquired McEwans retail hardware group

### OCT 1993

Acquired Dalgety Farmers Limited, forming Wesfarmers Dalgety

95

### OCT 1995

Sale by Wesfarmers Bunnings of three manufacturing businesses, Sterlands, Du Feu Metal and The Roofing Centre

**APR 1996**

Acquired remaining 50 per cent interest in Total Western Transport from Westrail, forming the Wesfarmers Transport division

**1996**

Bunnings warehouse development expansion

**SEP 1996**

Commitment to full scale development of the Bengalla coal deposit

96

**FEB 1998**

Completion of a final feasibility study with Dyno Nobel Asia Pacific to develop an ammonium nitrate production facility in Queensland

**APR 1998**

Sale of Charlie Carter supermarket chain

**AUG 1998**

50 cents per ordinary share capital return, totalling \$130 million

98

**MAY 2000**

Commissioned a \$20 million, 60,000 tonnes-a-year expansion of the LPG extraction plant at Kwinana, Western Australia

Acquisition of the Curragh coal mine in Queensland's Bowen Basin

**AUG 2000**

Sale of Sotico's woodchip, plantation services operations and assets

**OCT 2000**

Acquired the Westrail Freight business through Australian Railroad Group

**NOV 2000**

Merger of IAMA with Wesfarmers Dalgety

00

02

**FEB 2004**

Committed up to \$150 million to the Gresham Private Equity Fund No.2

**AUG 2004**

Sale of Sotico's jarrah business

04

97

**JUNE 1997**

Commissioned a \$150 million ammonia production facility at CSBP's site at Kwinana, Western Australia

99

**JULY 1999**

Commitment of \$100 million as the foundation investor in the Gresham Private Equity Fund No.1

01

**APR 2001**

Stockholders of Westralian Farmers Co-operative Limited and unitholders of The Franked Income Fund approved the Wesfarmers Limited Simplification Plan

**AUG 2001**

Takeover of Howard Smith Limited

**SEP 2001**

Acquired a 65 per cent interest in StateWest Power Pty Ltd

03

**JAN 2003**

Agreement reached with Stanwell Corporation to develop the Curragh North coal resource

**JULY 2003**

Acquisition of the business and assets of Paykel, New Zealand

**AUG 2003**

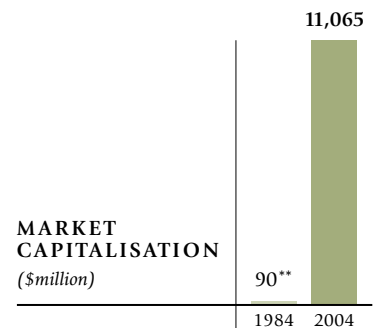
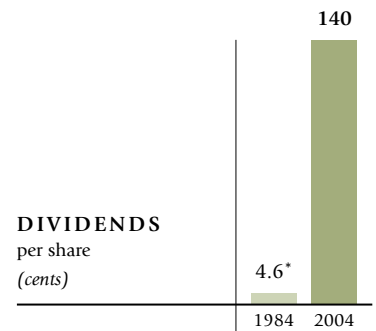
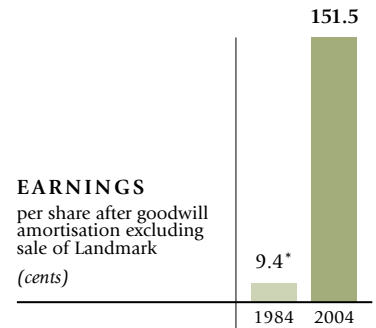
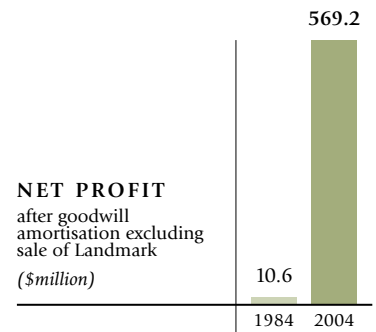
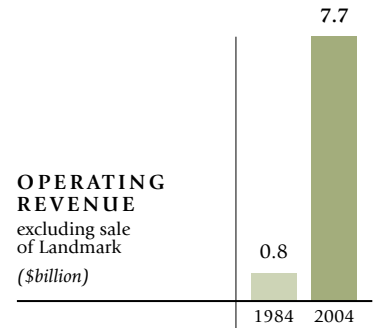
Sale of the rural services business, Landmark

**OCT 2003**

Acquisition of the Lumley Insurance Group's Australian and New Zealand operations

**DEC 2003**

\$2.50 per ordinary share capital return, totalling \$934 million



\* adjusted for bonus issue in 1987 and share split in 1989

\*\* upon listing

## Managing Director's review of operations

MICHAEL CHANEY AO  
Managing Director

### IN BRIEF

*A strong performance by Bunnings with earnings 12.3 per cent above last year*

*New insurance division created with the purchase of Lumley's businesses*

*Approved capital expenditure of \$290 million to bring Curragh North coal resource to full production*

*Expectations are for another increase in normalised profits in all major divisions in the 2004/05 year*

In the 2003/04 year, Wesfarmers recorded another record profit and continued its development as an industrial conglomerate.

Net profit rose to \$873.1 million. This included an after tax profit of \$303.9 million from the sale of the rural services business, Landmark, in August 2003. Normalised to exclude the sale of Landmark (and the Girrah coal deposit the previous year) the net profit

after goodwill amortisation was \$569.2 million, which represented an increase of over 18 per cent on last year's \$481.9 million and on the same basis, earnings per share (pre goodwill) rose 16 per cent to \$1.74.

Operating revenue (not including revenue from the sale of Landmark) was \$7.7 billion, similar to that earned in 2002/03.

The achievement of strong profit growth was particularly gratifying in light of the significant challenges faced by the company during the year. These included a fall in coal prices, which reduced the earnings of the energy businesses, the loss of Landmark's earnings following the sale of that company in August 2003 and the payment of \$934 million to shareholders as a return of capital.

The increased profit was due to a combination of factors. One of the most significant was the purchase, in October 2003, of Lumley's Australian and New Zealand insurance businesses; which led to the creation of a new insurance division. Excellent earnings from the insurance division have more than compensated for the loss of Landmark earnings.

Another important factor was the strong performance of the Bunnings hardware retailing business, with

operating revenue 10.7 per cent higher and earnings 12.3 per cent above last year's. A further 12 new warehouse stores were opened during the year, expanding the chain to 125 warehouse stores and 85 traditional stores operating across Australia and New Zealand.

The results from the group's energy businesses were ahead of expectations, albeit below those achieved last year. Sales volumes from the Curragh coal mine in Queensland were up but earnings were lower, due to lower coal prices and demurrage costs arising from port congestion. Sales and earnings from the Premier mine in Western Australia and the 40 per cent-owned Bengalla mine in New South Wales were in line with last year's. Kleenheat's earnings were lower this year due to competitive pressures in the autogas market and higher international LPG prices, both of which affected margins.

The industrial and safety businesses achieved a solid result in 2003/04. Sales growth was particularly strong in Queensland, Western Australia and New Zealand. Earnings were slightly lower than those recorded last year due primarily to the disappointing performance of the Protector Alsafe business.

CSBP's businesses made an above budget contribution to group earnings. Higher sales and revenues were recorded in both the chemicals and fertilisers activities. Earnings benefited from strong demand, improved customer focus and good operational performance.

Wesfarmers' investment in the Gresham Private Equity Fund made a material contribution to the group's results for the year from the Fund's sale of some of its investments, including the Repco and Cashcard businesses.

The 50 per cent-owned Australian Railroad Group achieved increased earnings due mainly to higher revenues following improved grain and iron ore volumes; and a reduction in incident costs.

Similarly, the contribution from Sotico's forest products business was ahead of expectations. The 50 per cent-owned Wespine Industries performed soundly over the year due to the ongoing strength of demand from the Western Australian housing construction market.

Since the end of the financial year, Sotico's jarrah business has been sold, completing the exit by Wesfarmers from the native forest products industry. I take this opportunity to acknowledge the great efforts of Sotico's Managing Director, Mr Ron Adams, and his team in the management of the disposal process. Mr Adams will assume the role of Chief Executive Officer of Wesfarmers' remaining timber investment, the 50 per cent-owned Wespine Industries, from September 2004.



#### FINANCIAL POSITION

The record net profit in 2003/04 and strong cash flows from operating activities enabled the group to maintain its financial strength. The group's cash flow per share was \$3.07 compared with last year's \$2.20.

Net operating cash flows from the group's activities were \$710.5 million. Replacement and expansion capital expenditure was \$258.2 million.

The consolidated ratio of net debt to equity at 30 June 2004 was 45.5 per cent, up from 23.7 per cent at 30 June 2003, the increase mainly resulting from the return of capital to shareholders, in December 2003, totalling \$934 million.

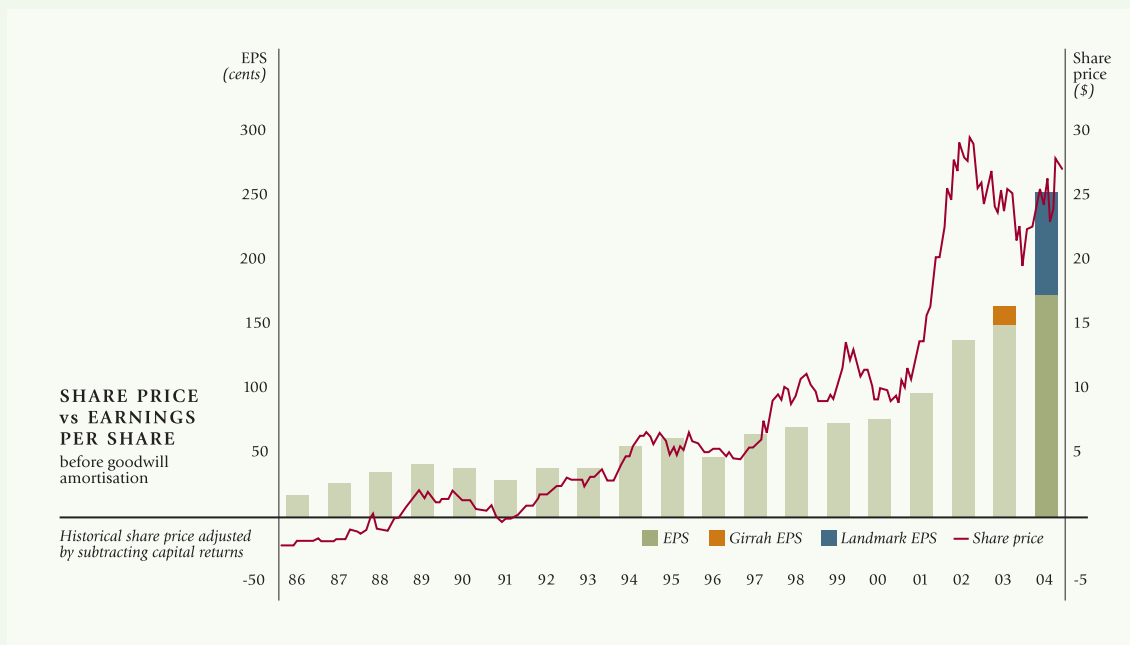
The company's share buyback, which was announced in February 2003 and extended in February 2004, resulted in the repurchase of 2.9 million shares during the year at a cost of \$78.9 million (an average cost of \$27.32 per share).

#### STRATEGIC DEVELOPMENTS

Wesfarmers continues to follow a three pronged strategy for growth; namely, improving the efficiency of existing businesses; expanding those businesses as opportunities are identified; and managing its portfolio.

During the course of 2003/04 a number of significant investments were made.

**Wesfarmers  
continues to follow  
a three pronged  
strategy for growth**



As part of the company's ongoing store roll-out programme, an additional 12 Bunnings warehouse stores were opened throughout Australia and New Zealand and a further seven are now under construction.

The acquisition of Lumley's Australian and New Zealand insurance businesses in October 2003, was a very good example of the company's "logical incrementalism" growth philosophy. Wesfarmers has been in the general insurance business for many years, originally becoming involved in order to provide an extra service to its farmer customers. Wesfarmers Federation Insurance and Lumley were amongst the most successful Australian general insurers over the last decade and their businesses and business models are very complementary.

**We manage the company  
for the "buy and hold"  
investor, who is concerned  
about long term total  
shareholder return**

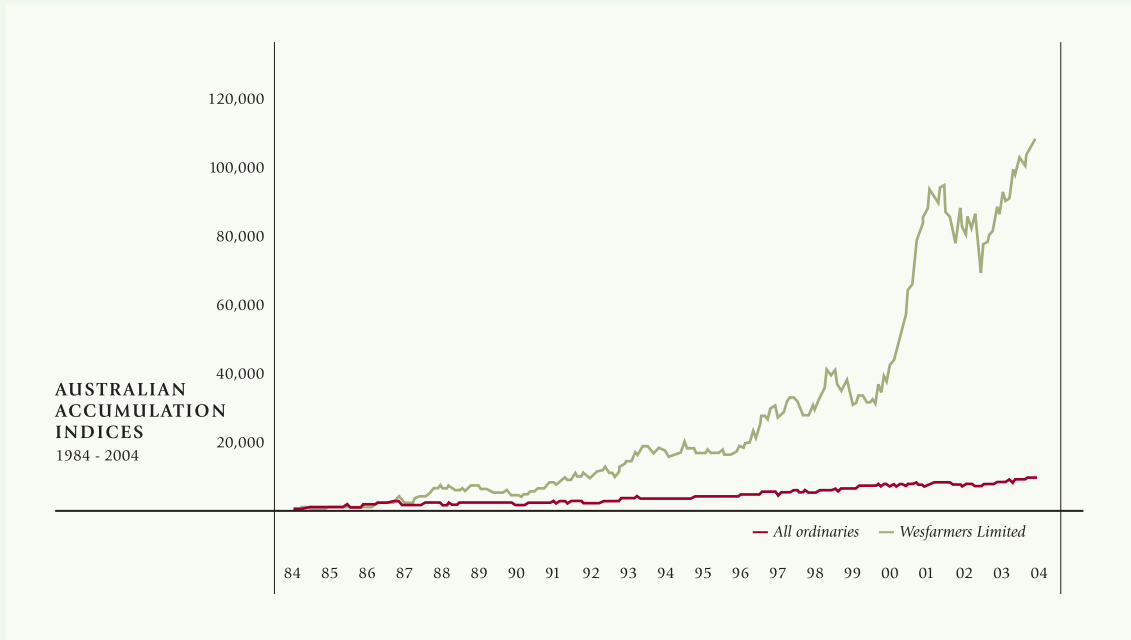
Early in the year, Wesfarmers acquired the Paykel industrial distribution business in New Zealand. This gives the industrial and safety division a much more significant involvement in that country and, after an initial period of rationalisation, earnings benefits are expected to be gained from the 2004/05 year.

During the year, Wesfarmers announced a commitment to contribute up to \$150 million to a second Gresham Private Equity Fund following the outstanding success of the first Fund.

In August 2004, final Board approval was given to capital expenditure of \$290 million over the next two to three years to bring the Curragh North coal resource to full production. The development of Curragh North is expected to more than double the recoverable resources available in and around Curragh, extend the mine life to at least 2025 and allow increases in annual sale tonnages from 2005.

At the same time, CSBP announced a feasibility study into the potential expansion of its ammonium nitrate capacity. The capital cost of these works is estimated at between \$130 million and \$140 million. Subject to completion of the study and regulatory approvals, construction is planned to commence in 2005, with first production in the second half of the 2006/07 financial year.

The continuing challenge for any listed company remains the identification of, and investment in, profitable growth opportunities. Contrary to the conventional wisdom that capital is a limited resource, the modern corporation finds identifying good investment opportunities to be a more relevant



constraining factor. In all but the most extreme circumstances, capital will be provided readily by equity and debt markets if good investments are found.

Since its early days as a listed company Wesfarmers has differentiated itself by maintaining a substantial business development unit. This is a group of business analysts, currently numbering 16, located at the Corporate Office, who are available to evaluate new opportunities both on behalf of operating divisions and in relation to businesses in which Wesfarmers is not currently involved.

Each year many opportunities are considered but only a small number prove economically attractive.

As a result of the financial nature of its core objective - "to provide a satisfactory return to shareholders" - Wesfarmers is not driven to make new investments for the sake of growth alone. Our firmly held view is that unless an investment will provide acceptable returns in its own right (including, of course, any enhanced returns achieved by existing businesses as a result of the new investment), it is not worth making. We are not in business to build empires and if no attractive investments emerge within a reasonable time frame, it is better to return money to shareholders.

An obvious result of this approach is that capital investments (both external acquisitions and internal expenditures) occur in a "lumpy" way and profit growth is not even, year to year. This point does not seem to be well appreciated by many market observers who from time to time when profit growth does slow temporarily, lament

that a company has "gone ex-growth" or "run out of ideas". Repeated criticism of that kind runs the risk of causing management to pursue sub-optimal growth opportunities for the sake of a quieter life, at least in the short term.

It is important to take account of external suggestions about what your company should be doing but even more important to march to the beat of your own drum. In Wesfarmers that beat is about long term shareholder returns. We manage the company for the "buy and hold" investor, who is concerned about long term TSR (total shareholder return) rather than quarterly profit numbers. To date that has proved a successful approach.





**PEOPLE**

At 30 June 2004, the Wesfarmers group had a total permanent workforce across Australia and New Zealand of about 30,000 employees including 10,000 casual employees.

The incidence of work-related injuries declined in 2003/04 across most group activities, reflecting the strong focus of management and the acceptance by employees that safety is a paramount responsibility. Increasing numbers of our employees have a proportion of their remuneration linked to safety performance.

It is pleasing to report that over 90 per cent of eligible employees accepted invitations during the year to apply for shares in Wesfarmers Limited through the employee share plan. Approximately 16,000 employees of the Wesfarmers group now hold shares in the company, representing around four per cent of Wesfarmers' issued capital. This share plan has undoubtedly been a significant driver of employee motivation.

**MANAGEMENT CHANGES**

In addition to the senior appointments and retirements referred to in the Chairman's letter, other significant management changes occurred during the year.

Mr Bryce Denison, Wesfarmers' General Manager, Group Accounting retired after more than 18 years of outstanding service to the company. I thank him for his significant contribution and wish him well in his retirement.

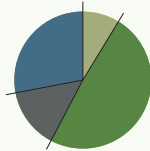
Following the acquisition of the Lumley insurance businesses, Mr Bob Buckley, formerly General Manager of Wesfarmers Federation Insurance, was appointed Chief Executive Officer of the group's insurance division.

After the close of the financial year, Mr John Gillam, formerly Managing Director of CSBP, was appointed Managing Director of Bunnings and Mr Peter Davis assumed the role of Chief Operating Officer of that company. Mr Keith Gordon, who has extensive agribusiness experience within and outside Wesfarmers, was appointed Managing Director of CSBP.

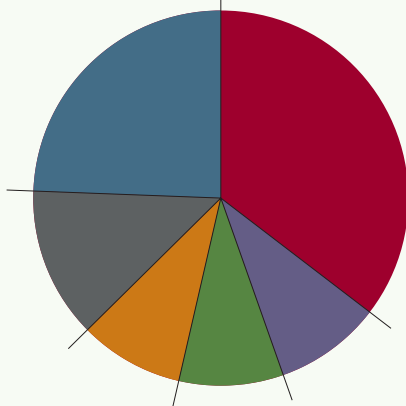
1985 - \$35.9 million



1990 - \$130 million



2004 - \$965 million



**EBIT**

- Hardware
- Energy
- Industrial and safety
- Insurance
- Chemicals and fertilisers
- Rural services
- Other

## OUTLOOK

The outlook for the group is positive. Current expectations are for another increase in normalised profits in all major divisions in the 2004/05 year.

The Bunnings hardware retailing business should generate good revenue and profit growth in 2004/05 but the rate of retail sales growth in Australia is expected to be lower than in previous years. New warehouse development is forecast to continue at between 8 to 12 stores per year, although the majority of openings in the next year will be in the second half. The first new Series 3000 warehouse stores in both Australia and New Zealand are due to open later this year.

The company's energy businesses are anticipating a year of growth. After facing tougher market conditions for most of the 2003/04 year the coal businesses are now benefiting from better thermal and coking coal prices, as a result of strong demand for these products. Production from the Curragh North coal resource is scheduled to commence in the first quarter of the 2005 calendar year. Development of this resource will more than double the recoverable coal reserves currently available. Exports from Curragh and Curragh North are now expected to rise from the 2003/04 volume of 4.6 million tonnes to five million tonnes in 2004/05 and seven million tonnes in 2005/06.

Earnings from the gas businesses will once again be dependent on the level of international LPG prices and domestic competition. There will be a focus on completing negotiations to secure satisfactory gas supply arrangements for Wesfarmers LPG beyond 30 June 2005, on completing new projects such as the \$45 million Air Liquide plant to service Hismelt and on securing profitable opportunities for StateWest Power.

The industrial and safety businesses expect a moderate profit increase in 2004/05. The outlook for the business in Australia is generally positive, with increased spending anticipated in the mining and transport infrastructure segments. New Zealand's economic outlook remains steady and the integration of the Paykels business is expected to contribute to growth in revenue and earnings.

The outlook for the insurance division is also positive despite signs emerging of increased competition in some market segments.

CSBP's chemicals and fertilisers businesses are expecting an improvement in earnings, subject to reasonable seasonal conditions in Western Australia and continued strong demand for chemicals from the mining sector.

Earnings from the Australian Railroad Group are expected to continue to improve due to a positive outlook for grain and other commodity volumes and further operational improvements.

A more detailed review of the group's operations appears in the divisional reports which follow.

## ACKNOWLEDGEMENTS

As this will be my last report before my scheduled retirement in July next year, I would like to pay tribute to the efforts of the company's dedicated and loyal employees. It has been gratifying to see at all levels and in all businesses across the company, a strong focus on the company's principal aim of delivering superior shareholder returns whilst maintaining the highest standards of integrity and honesty. The achievements of the company are really just the achievements of the people within it. I acknowledge the company's employees with thanks and offer my best wishes for the future.

I would also like to acknowledge the directors under whom I have served and the company's shareholders whose support has been critical to the company's success.



MICHAEL CHANEY AO  
Managing Director

# Portfolio of diversified businesses

## Hardware

- Retailing building materials and home and garden improvement products
- Servicing project builders and the housing industry
- Bargain hardware and variety

## Energy - Coal

- Coal mining and development in Queensland (*Curragh*), Western Australia (*Premier Coal*) and New South Wales (*Bengalla*)
- Coking coal to export markets and thermal coal to both domestic and export markets

## Energy - Gas and power

- Production, marketing and distribution of LPG
- Manufacture and marketing of industrial gases and equipment
- Power generation for resources industry and regional towns

### YEAR IN BRIEF

- 12.3 per cent increase in earnings
- 11 per cent increase in store-on-store growth in cash sales
- 12 new warehouse stores opened, three closed
- Nine traditional stores closed

- Curragh*
- Increased coal production and sales
  - Curragh North mine development brought forward
  - Celebrated 20th anniversary of operations

- Premier*
- Sales and earnings were slightly above last year
  - Premier Coal/J-Power shortlisted to bid for a new base-load power generation supply in Western Australia

- Bengalla*
- Revenues adversely affected by shipping delays

- New safety records for Kleenheat Gas and Air Liquide
- Wesfarmers LPG and StateWest Power recorded no lost time injuries during the year
- LPG sales volume growth in bulk and cylinder markets
- Acquired Peters Gas in Victoria and South Australia
- StateWest Power successfully completed the Mid-West power project

### FUTURE DIRECTIONS

- Continue roll-out of warehouse stores across Australia and New Zealand
- Develop the new Series 3000 warehouse format to cater for regional centres
- Continue store network rationalisation
- Develop new inventory and management systems

- Continue focus on environment, health and safety performance
- Develop Curragh North coal resource
- Increase production and progress sales market development
- Improve production, processing and transport efficiencies

- Continue focus on environment, health and safety performance
- LPG and LNG market development
- Expand power generation activities
- Pursue new industrial gases production opportunities



## Industrial and safety

- Supplier and distributor of maintenance, repair and operating (MRO) products
- Specialist supplier and distributor of industrial safety products and services

- Refurbishment and consolidation of distribution facilities
- Integration of the Paykels business with Blackwoods in New Zealand
- Production and distribution of five trading stream-specific catalogues
- Blackwoods' largest ever trade fair at Sydney's Olympic Park

- Further develop the new trade centres store concept
- Provide suppliers and customers with innovative e-business solutions
- Increased utilisation of best practice information systems and processes

## Insurance

- Provider of general and specialist insurance products to select market segments in Australia and New Zealand under the WFI and Lumley brands
- Development of general insurance software through Koukia Pty Limited

- Completion of Edward Lumley Holdings acquisition and the formation of a new insurance division
- Integration of Wesfarmers' management systems into Lumley businesses
- Koukia's software development remains on target with WFI and Lumley (New Zealand) currently deploying this software
- Record results recorded in all insurance business units

- Maintain business focus in various market segments
- Respond to the growing compliance and regulatory environment
- Future financial projections remain positive with all business units enjoying strong market positions

## Chemicals and fertilisers

- Manufacture and marketing of chemicals for industry, mining and mineral processing
- Manufacture and marketing of broadacre and horticultural fertilisers
- Soil and plant testing and agronomy advisory services

- 8.5 per cent increase in total earnings
- Operating revenue exceeds \$500 million for the first time
- Volume and earnings growth in CSBP's chemicals and fertilisers businesses
- Queensland Nitrates joint venture ammonium nitrate plant made its first positive earnings contribution

- Continued strong demand conditions for CSBP's core chemicals products
- Evaluate expansion and enhancement of production facilities
- Maintaining fertiliser volume growth through strong market focused approach

## Other activities

- Rail*
- 50 per cent interest in Australian Railroad Group Pty Ltd which operates rail freight business in Western Australia and South Australia
- Gresham*
- 50 per cent interest in the investment bank, Gresham Partners

- Rail*
- Record grain harvest in Western Australia contributed to improved revenue and earnings
  - Installation of an acoustic monitoring system resulted in a further reduction in incidents
  - Lost time injury frequency rate reduced from 11.4 to 0.5
- Gresham*
- Successful divestments by Gresham Private Equity Fund No.1 of Repco and Cashcard
  - Formation of Gresham Private Equity Fund No.2

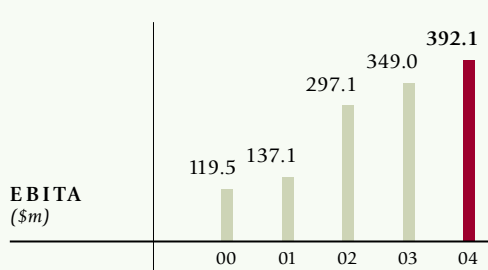
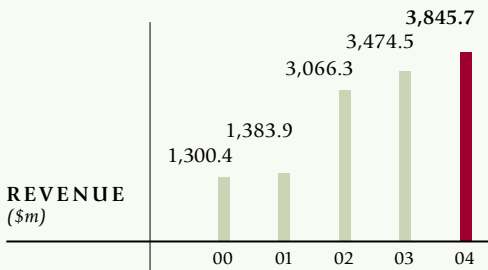
- Rail*
- Continue evaluation of new freight opportunities
  - Growth in commodity volumes
- Gresham*
- Gresham Private Equity Fund No.1 to divest within three to five years
  - Gresham Private Equity Fund No.2, following first investment in August 2004, to seek further investments



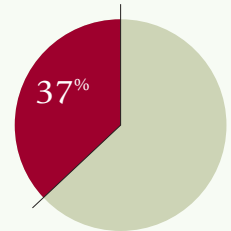
# Hardware

## KEY FINANCIAL INDICATORS

	00	01	02	03	04
Operating revenue (\$m)	1,300.4	1383.9	3,066.3	3,474.5	3,845.7
Earnings before interest, tax and goodwill amortisation (\$m)	119.5	137.1	297.1	349.0	392.1
Capital employed (\$m)	521.1	547.0	1,841.7	1,943.8	1,840.0
Return on capital employed (%)	22.9	25.1	16.1	18.0	21.3
Capital expenditure (\$m)	46.3	60.8	83.7	84.5	97.9



### CONTRIBUTION TO GROUP EBITA



Bunnings team member Andy Cooper helping a customer outside the Busselton warehouse in Western Australia which was opened in 2004.

## Bunnings is Australia's leading retailer of home and garden improvement products and building materials.

**JOHN GILLAM** *(left)*  
*Managing Director,*  
*Bunnings Pty Ltd*

**PETER DAVIS** *(right)*  
*Chief Operating Officer,*  
*Bunnings Pty Ltd*

### OUR BUSINESS

Operating through a chain of warehouse superstores and traditional stores in Australia and New Zealand, Bunnings caters predominantly for do-it-yourself customers as well as builders and contractors.

### STRATEGY

Bunnings provides its customers with the widest range of home improvement and building products and is committed to delivering outstanding service and lowest prices. It sets out to attract high quality employees and to provide them with a safe and rewarding working environment. The company is focused on improving systems, reducing costs and making better use of working capital. Bunnings continues to develop and improve its store network through new store openings, refits of existing outlets and re-merchandising.

### RESULTS

Operating revenue for the Bunnings hardware business increased to \$3.8 billion, 10.7 per cent higher than the previous year. Earnings before interest and tax (before goodwill amortisation) of \$392.1 million were 12.3 per cent higher. Earnings before interest and tax (before goodwill amortisation) on trade sales to project builders and the housing industry increased by 13 per cent. Store-on-store growth in Bunnings' cash sales for the year was 11 per cent. Strong growth was achieved in Queensland, Western Australia and New South Wales but growth was lower in Victoria. The June quarter saw more subdued retail hardware spending across Australia.

Store-on-store sales growth in that quarter was seven per cent with the weaker trend continuing in July and August. New Zealand sales continued to grow strongly. Trade sales remained subdued but improved in the final quarter to finish slightly higher than those recorded last year.

WA Salvage, the bargain hardware and variety retail chain, delivered a disappointing result for the year with sales and earnings below last year's result.

### YEAR IN BRIEF

New store development continued during the year with the opening of 12 new warehouse stores, the largest number of openings in a single year. Five warehouse stores opened in New South Wales, two in Queensland, two in Victoria and one in Western Australia. In addition, the first two newly constructed warehouse stores were opened in New Zealand, adding to the three former BBC Hardwarehouse stores acquired in 2001.

The network rationalisation programme resulted in the closure of three warehouses and nine traditional stores. At year end, there were 125 warehouse stores and 85 traditional stores operating across Australia and New Zealand and seven warehouse stores were under construction.

The store network improvement programme resulted in the completion of 15 store upgrades during the year. These included six upgrades to older Bunnings



## HARDWARE

warehouses to achieve current building and merchandising standards; five refits of former BBC Hardware stores with Bunnings' standard merchandise racking and store layout; and four refits of traditional stores to include warehouse style racking and greatly increase the range of available products.

To support the continuously growing store network, major new distribution centres were opened at Lyndhurst in Victoria and Hemmant in Queensland. In New South Wales, construction is ready to commence on a purpose-built distribution centre and administration support office at Rosehill. In addition, a new store support centre was recently completed in Brisbane and a support centre in Melbourne is scheduled for completion by October, 2004.

To maintain its lowest price position, Bunnings is focused on reducing costs. A dedicated project team has been established to investigate cost reduction opportunities across the warehouse network. To date, significant actual and potential savings have been identified across a wide range of administration expenditures and equipment purchases.

Following a lower than expected performance in the trade business since the BBC Hardware acquisition, a comprehensive internal review of the trade strategy is currently underway.

The implementation of new processes and procedures during the year resulted in a significant improvement in margin and inventory management. A comprehensive review of Bunnings' information systems is in progress and system upgrades are planned over the next two to three years to assist in the management of the expanding business and to deliver greater efficiencies.

### OUR PEOPLE

With 21,500 employees and a continually expanding store network, issues of recruitment, training and development continue to be a very high priority.

During the year, Bunnings introduced a structured education programme which will lead to an internally-recognised employee qualification and adopted e-learning to improve the consistency

and regularity of in-store training. An accelerated management development plan for high potential employees was also introduced.

To reinforce the importance of safety, Bunnings has partnered with global safety improvement consultants, DuPont, to roll-out a structured safety leadership programme across the business. Focusing initially on New South Wales, this programme has resulted in a substantial improvement in safety awareness and performance.

### OUTLOOK

The outlook for the hardware merchandising business in 2004/05 is for continued, but slower retail sales growth in Australia. Housing industry activity is expected to reduce over the next 12 months leading to subdued trade sales performance.

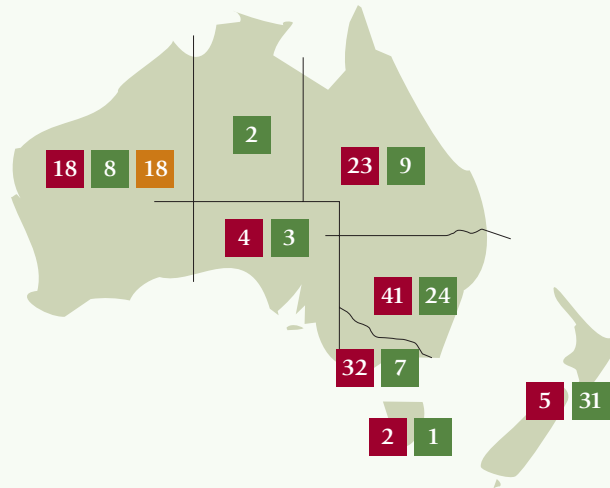
New warehouse development is forecast to continue at between 8 to 12 stores per year although the majority of openings in the next year will be in the second half. Plans are underway to launch several new Series 3000 warehouse, a format created to service the smaller regional centres in both Australia and New Zealand. These are expected to open over the next 12 months. Development of the New Zealand market remains a priority with approximately 20 new warehouse stores planned to open over the next four years.

Growth is also expected to continue from store upgrades with around 15 stores scheduled for improvement in 2004/05.

HARDWARE

WAREHOUSES AND STORES

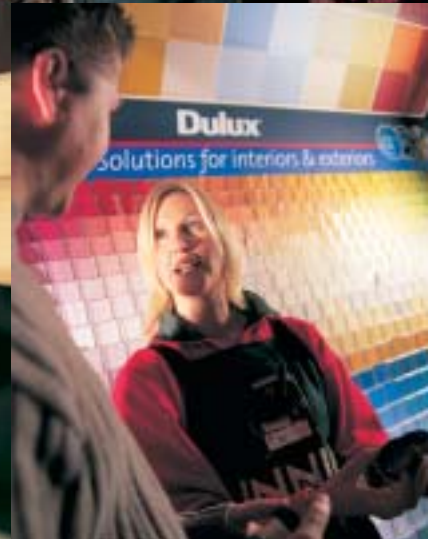
	No.
Warehouses	125
Traditional stores	85
WA Salvage stores	18



QUICK FACTS

125 warehouse stores  
 85 traditional stores  
 45,000 product lines  
 21,500 employees

Below: Peter Daniel strapping a wood order at Bayswater, Victoria.  
 Top right: Bill Young assisting a customer in the lighting department at Bayswater.  
 Bottom right: Diane Bell advising a customer on paint selection at Bayswater.



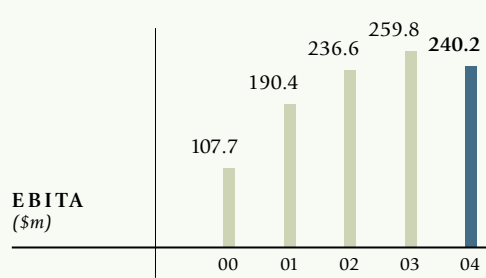
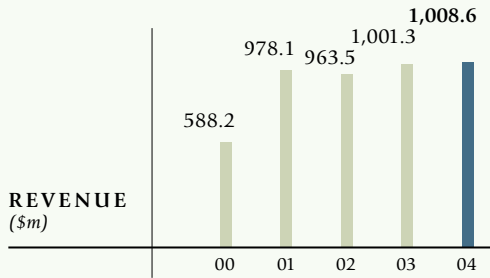


# Energy

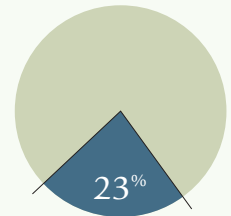
## KEY FINANCIAL INDICATORS

	00	01	02	03*	04
Operating revenue (\$m)	588.2	978.1	963.5	1,001.3	1,008.6
Earnings before interest, tax and goodwill amortisation (\$m)	107.7	190.4	236.6	259.8	240.2
Capital employed (\$m)	538.4	778.3	844.9	815.6	770.9
Return on capital employed (%)	20.0	24.5	28.0	31.9	31.2
Capital expenditure (\$m)	66.5	133.8	77.6	57.8	86.1

\* 2003 figures exclude the effect of the sale of the Girrah coal deposit



### CONTRIBUTION TO GROUP EBITA



Dragline in operation at the Curragh mine, near Blackwater, Queensland.

## Wesfarmers Energy is involved in coal mining; LPG extraction and distribution; and power generation.

**DAVID ROBB**  
*Managing Director,  
 Wesfarmers Energy Limited*



### OUR BUSINESS

Wesfarmers Energy comprises three coal companies, three gas companies, a power company and a range of business services to support these companies.

Energy's coal interests include the Curragh mine in Queensland's Bowen Basin (coking coal for export markets and thermal coal for domestic markets), the Premier Coal mine at Collie in Western Australia's south-west (thermal coal for domestic markets), and a 40 per cent interest in the Bengalla mine in the Hunter Valley of New South Wales (thermal coal for both export and domestic markets).

Energy's gas and power activities comprise Wesfarmers Kleenheat Gas Pty Ltd (liquefied petroleum gas distribution and marketing), Wesfarmers LPG Pty Ltd (LPG production and export), StateWest Power Pty Ltd (power generation for regional areas) and a 40 per cent interest in Air Liquide W.A. Pty Ltd (industrial and medical gases).

### STRATEGY

Wesfarmers Energy's objective is to achieve "Profitable Growth Over Time", which is aligned to the Wesfarmers Limited objective of providing a satisfactory return to shareholders.

### RESULTS

Operating revenue of \$1.0 billion from the group's energy business was in line with last year's (excluding revenue from the sale of the Girrah coal deposit). Earnings before interest and tax (before goodwill and amortisation) of \$240.2 million were 7.5 per cent lower than the \$259.8 million earned last year (excluding profit on the sale of Girrah).

#### *Coal*

The results for the coal businesses overall were characterised by steady growth in volumes - an increase of 5.8 per cent - but reduced revenues and earnings.

Total sales volumes from the Curragh coal mine in Queensland of 6.9 million tonnes (4.6 million export and 2.3 million domestic) were 12.0 per cent above those achieved in 2002/03. Earnings for the year were 13.8 per cent below last year's due to lower export coking coal prices, stronger exchange rates and higher overall costs, which included unfavourable inventory movements and demurrage costs.

Premier Coal in Collie, Western Australia, achieved sales volumes of 3.4 million tonnes in 2003/04, in line with last year's. Earnings for the year were similar to those recorded last year.

Bengalla joint venture sales volumes of 5.8 million tonnes (4.2 million export and 1.6 million domestic) were slightly higher than last year's with a corresponding increase in revenue.

#### *Gas and power*

Kleenheat Gas' overall sales volumes were in line with last year's with the acquisition of Peters Gas (operating in Victoria and South Australia) as well as sales volume growth in the bulk and cylinder markets offsetting reduced autogas volumes. Earnings were below last year's due to higher international LPG prices impacting margins and competitive pressures in autogas.

Wesfarmers LPG achieved export volumes of 221,000 tonnes, which was slightly below those achieved last year. Earnings were marginally lower than those recorded in 2002/03 due to the lower sales tonnages.

Earnings from Air Liquide W.A. were above last year's due to continued sales revenue growth.

The performance of StateWest Power was significantly better than last year due mainly to the commencement of operations of the Mid-West power project.

## ENERGY

### YEAR IN BRIEF

A major focus during the year was finalising mine plans, obtaining necessary approvals and confirming marketing commitments for the Curragh North coal resource. The development of Curragh North will more than double the recoverable coal reserves currently available, extending the life of mining operations until at least 2025. Production from the Curragh North coal resource is expected to begin ahead of schedule in the first quarter of the 2005 calendar year.

Curragh celebrated its 20th anniversary of operations in December 2003 and received two awards during the year. The mine's outstanding export performance was recognised with a Queensland Export Award in the Minerals and Energy category while the second award was for the Best Overseas Raw Material Supplier award from TATA Iron and Steel India.

Premier Coal expanded its existing coal handling plant to meet additional coal sales to the mineral sands market. Board approval was also received for a pilot plant to produce char by upgrading coal to meet new local and export markets.

In June 2004, Premier won the mining category of the Banksia Awards, Australia's most prestigious environmental awards. The award was in recognition of Premier Coal's value-added conservation and community asset development programme, in particular its work on the Collie Lakes Rehabilitation Programme.

In partnership with J-Power, Japan's largest electricity generator, Wesfarmers Energy is bidding for the right to build a base-load power generation station as part of Western Power's power procurement process. The bid process is expected to be completed by mid-2005.

During the year, Kleenheat Gas purchased LPG distributor Peters Gas, with operations in South Australia and Victoria, and comprising over 5,000 residential and commercial customers.

Kleenheat's total direct sales volume in its traditional market increased over the previous year with gains in all market segments but autogas sales volumes from the 50 per cent-owned Unigas business and Kleenheat's WA autogas business declined due to ongoing expansion of discount schemes and excise uncertainty.

Kleenheat continued its successful LNG operations in Western Australia and signed an agreement to construct and operate an LNG road tanker loading facility in Victoria.

The Federal Government's announcement in December 2003 confirming future excise and tax arrangements for transport fuels, including LPG, enables Kleenheat to plan for the future with increased confidence.

Negotiations continued throughout the year with a view to confirming commercial arrangements for continued operation of the LPG extraction plant post-2005.

Air Liquide continued construction of the \$45 million air separation unit at Kwinana in Western Australia, which will supply oxygen and nitrogen to the HISMelt pig iron project.

StateWest Power satisfied all contractual conditions as part of its project to supply electricity to the Mid-West region of Western Australia for a contract period of 10 years.

### OUR PEOPLE

All businesses within Wesfarmers Energy adopt a "safety is our number one priority" goal, along with the pursuit of excellence in the areas of health, environmental responsibility and community relations. During the year a range of programmes were implemented to further advance these goals and several safety milestones were achieved, including Kleenheat's achievement of a lost time injury frequency rate of zero for the year and 12 years without a lost time injury at Air Liquide.

### OUTLOOK

The next year will involve a focus on improving the energy division's existing operations and progressing various large projects, such as the development of Curragh North.

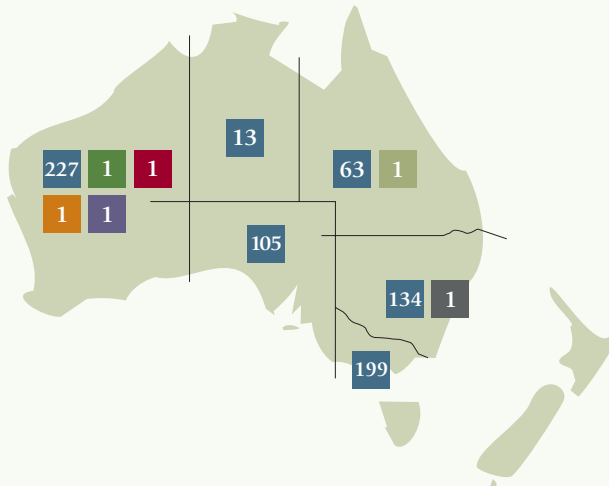
After facing tough market conditions for most of 2003/04, the export coal activities are now benefiting from stronger thermal and coking coal prices.

Earnings from the gas businesses will once again be dependent on the level of international LPG prices and domestic competition.

ENERGY

BUSINESSES

	No.
<span style="color: blue;">■</span> Kleenheat Gas	741
<span style="color: green;">■</span> Wesfarmers LPG	1
<span style="color: red;">■</span> Air Liquide	1
<span style="color: orange;">■</span> StateWest Power	1
<span style="color: purple;">■</span> Premier Coal	1
<span style="color: olive;">■</span> Curragh	1
<span style="color: grey;">■</span> Bengalla	1



QUICK FACTS

Coal (not including Bengalla)

**900** employees

**30** customers

Gas and power

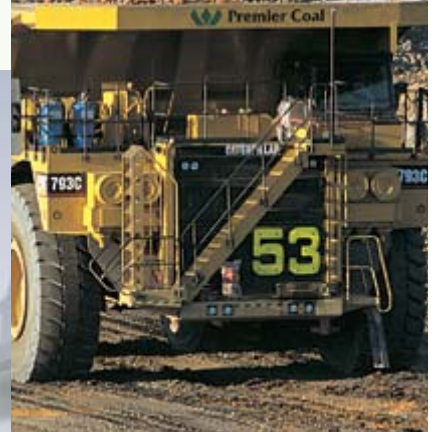
**900** employees

**230,000** customers

**Below:** *Kleenheat bulk driver Ian Coxon refuelling at a service station in Pearsall, Western Australia.*

**Top right:** *One of Premier Coal's new dump trucks at Collie, Western Australia.*

**Bottom right:** *Wesfarmers LPG's export facility at Kwinana, Western Australia.*



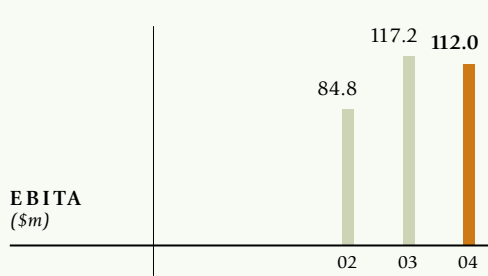
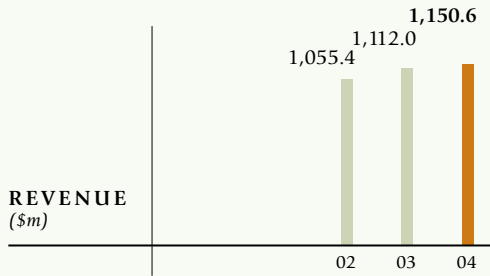


Industrial and safety

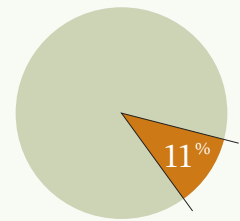
KEY FINANCIAL INDICATORS

	02*	03	04
Operating revenue (\$m)	1,055.4	1,112.0	1,150.6
Earnings before interest, tax and goodwill amortisation (\$m)	84.8	117.2	112.0
Capital employed (\$m)	708.5	797.3	814.1
Return on capital employed (%)	12.0	14.7	13.8
Capital expenditure (\$m)	10.9	25.4	23.1

\* 2002 figures include the results for the 11 month period from August 2001 to 30 June 2002



CONTRIBUTION TO GROUP EBITA



The central conveyancing system at Blackwoods' new warehouse facility in Scoresby, Victoria.

## INDUSTRIAL AND SAFETY

## The industrial and safety businesses are Australasia's leaders in the supply of maintenance, repair and operating products and safety products.

**BOB DENBY**

*Managing Director,  
Wesfarmers industrial  
and safety division*



### OUR BUSINESS

Wesfarmers industrial and safety division comprises 10 different trading businesses and is Australasia's leader in the supply and distribution of maintenance, repair and operating (MRO) products and safety products.

In Australia, industrial products distribution is headed by Blackwoods, established in 1878, and four other technical specialist distribution businesses, trading as Bakers Construction, Atkins, Motion Industries and Mullings Fasteners. The Australian safety distribution business trades as Protector Alsafe.

In New Zealand, industrial and safety trades as NZ Safety, Protector Safety Supply, Packaging House and Blackwoods Paykels.

### STRATEGY

Wesfarmers industrial and safety division aims to achieve satisfactory shareholder returns by being the first choice of every customer through the provision of innovative industrial distribution solutions. It pursues the strategies of growing sales, reducing its expense to sales ratio, optimising working capital levels, continuously improving its safety record and attracting and retaining quality employees.

### RESULTS

Operating revenue of \$1.2 billion was 3.5 per cent above the result recorded in the previous year. Earnings before interest and tax (before goodwill amortisation) of \$112.0 million were 4.4 per cent below the \$117.2 million recorded last year, primarily due to poorer performance of the Protector Alsafe business.

Increased activity within the mining industry contributed positively to sales performance in Queensland and Western Australia. Sales in New South Wales and Victoria increased in the construction sector but remained flat overall due to subdued growth in the manufacturing sector.

Revenue and profits from the Protector Alsafe business were below expectations. A number of initiatives have been implemented and the business has stabilised and is showing signs of improvement.

The Australian Blackwoods business returned a solid result despite generally flat sales in New South Wales and Victoria. The New Zealand operations achieved strong growth, benefiting from a robust domestic economy and a strong New Zealand dollar.

The integration of the newly acquired Paykels business (New Zealand's largest distributor of maintenance, repair and operating products) with Blackwoods is almost complete. Earnings from the combined businesses were in line with expectations.

### YEAR IN BRIEF

The rebranding of the Australian safety supply business under the Protector Alsafe brand was completed during the year. In New Zealand, the Paykels operations were merged with Blackwoods.

Blackwoods celebrated its 125th anniversary in 2003, culminating in a four-day trade fair at Sydney's Olympic Park in New South Wales. This was the

## INDUSTRIAL AND SAFETY

biggest trade fair of its type in the southern hemisphere, an event which attracted more than 15,000 visitors and had almost 400 exhibitors.

Following the production of the Blackwoods catalogue last year, five trading stream-specific catalogues were produced during the year; Protector Safety Supply New Zealand, Packaging House, Motion Industries, Mullings Fasteners and Protector Alsafe. The industrial and safety catalogues are recognised as the industry standard publications and are now accessible on-line.

Industrial and safety continued to market its e-business capabilities. Sales orders generated through e-business solutions doubled during the year and significant growth is expected over the next 12 months.

The business continued the rollout of its "hub and spoke" logistics model, improving customer service, speed of delivery and reducing working capital usage. This initiative will support the roll-out of shopfront-style or trade centres in industrial and mining locations throughout Australia and New Zealand. The model has been further supported by the consolidation of the metropolitan customer service centres to single points of operation in each of the mainland Australian capital cities.

Refurbishment and consolidation of industrial and safety's distribution facilities continued with the development of a Blackwoods distribution centre at Scoresby, Victoria, the opening of a new Blackwoods branch in Rockhampton, Queensland and the redevelopment of a distribution centre in Smithfield, New South Wales which will encompass a larger and more efficient import warehouse.

### OUR PEOPLE

Industrial and safety employs over 3,000 people. The recruitment and retention of quality employees is a primary objective of the business.

The design, implementation and roll-out of a complete learning and development strategy took place during the year. Over 1,600 employees have participated in the cornerstone module "growth through service" and over 270 field sales employees have undertaken the "field selling solutions" programme.

During the year significant resources were devoted to developing the capabilities and effectiveness of the division's sales teams. A formal sales and distribution traineeship programme was successfully implemented during the year.

Safety performance continued to improve with the lost time injury frequency rate falling from 8.6 to 5.3. Supporting this favourable result is a demonstrable improvement in the business's OHSE management system, particularly in the areas of risk assessment and incident management.

### OUTLOOK

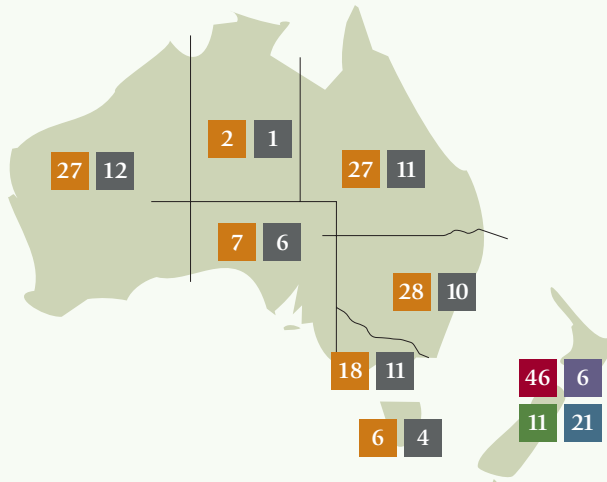
The industrial and safety division expects a moderate profit increase in 2004/05. The outlook for the business in Australia is generally positive with continued spending in the mining and transport infrastructure segments anticipated. New Zealand's economic outlook remains steady and the integration of the Paykels business is expected to contribute to growth in revenue and earnings.

During 2004/05 the business will focus on employee training and development, the continued upgrade of distribution facilities, the opening of a number of new shopfront-style or trade centres and the increased utilisation of best practice information systems and processes.

INDUSTRIAL AND SAFETY

BUSINESSES

	No.
<b>Industrial Products</b>	<b>115</b>
Blackwoods	65
Motion Industries	10
Atkins	3
Blackwoods Atkins	21
Bakers Construction	6
Mullings Fasteners	9
Metals	1
<b>Protector Alsafe</b>	<b>55</b>
<b>Protector &amp; NZ Safety</b>	<b>46</b>
NZ Safety	24
Protector Safety Supply	22
<b>Blackwoods (NZ)</b>	<b>6</b>
<b>Packaging House</b>	<b>11</b>
<b>Paykels</b>	<b>21</b>



QUICK FACTS

- 100,000 customers
- 400,000 product lines
- 12,000 vendors
- 3,000 employees
- 254 locations

**Below:** Customer Service Officer Marcel Caron (right) providing advice at the Blackwoods Trade Centre in Moorabbin, Victoria.

**Top right:** The newly refurbished Blackwoods warehouse at Smithfield, New South Wales.

**Bottom right:** Fitter Machinist John Fusco (left) and Works Gearing Manager Ken Stothard checking a transmission at Motion Industries in Wetherill Park, New South Wales.

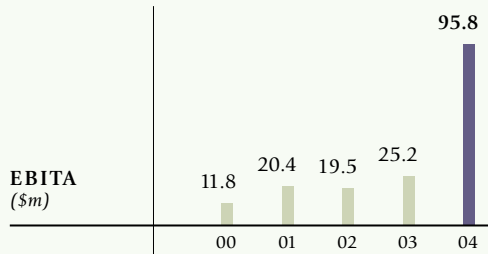
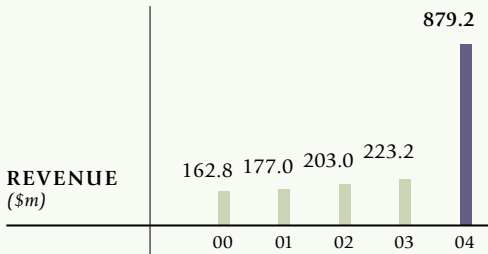


# Insurance

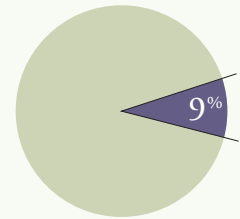
## KEY FINANCIAL INDICATORS

	00	01	02	03	04*
Operating revenue (\$m)	162.8	177.0	203.0	223.2	879.2
Earnings before interest, tax and goodwill amortisation (\$m)	11.8	20.4	19.5	25.2	95.8
Capital employed (\$m)	38.7	51.0	42.1	38.3	389.8
Return on capital employed (%)	30.5	40.0	46.3	65.8	24.6
Capital expenditure (\$m)	1.4	3.1	2.6	2.6	7.6

\*2004 figures include the effect of the acquisition of the Lumley insurance businesses



## CONTRIBUTION TO GROUP EBITA



Receptionist Angele Tohme and National Operations Quality Compliance Manager Frank Kiernan at Lumley General Australia's head office in Sydney, New South Wales.

## The insurance division consists of three separate businesses providing insurance products to select market segments in Australia and New Zealand under the WFI and Lumley brands.

**BOB BUCKLEY**  
*Chief Executive Officer,  
 Wesfarmers insurance division*



### OUR BUSINESS

Wesfarmers insurance division was formed in October 2003 following the acquisition of Edward Lumley Holdings, the owner of the Lumley insurance businesses in Australia and New Zealand. The division comprises three general insurance companies, two premium funding businesses and an insurance software developer.

The insurance operations comprise Wesfarmers Federation Insurance (WFI), Lumley General Insurance Australia (LGA) and Lumley General Insurance New Zealand (LGNZ). The premium funding businesses operate under the Lumley name in both Australia and New Zealand.

The insurance division also includes a software developer, Koukia, which is majority owned by Wesfarmers. Koukia is developing and marketing a general insurance package based on open platforms.

### STRATEGY

In Australia, the group's insurance operations service both the direct and intermediary distribution channels. WFI focuses on direct service to rural and provincial Australia whilst Lumley Australia and Lumley New Zealand specialise in the fleet and commercial motor, engineering and marine sectors. The premium funding businesses support the general insurance engagement with insurance brokers in Australia and New Zealand.

Koukia aims to provide a world class general insurance software package to insurers both within and outside Australia.

All activities are underpinned by the requirement to achieve profitable returns in line with the key objective of Wesfarmers Limited.

### RESULTS

The division's results consist of 12 months' trading for WFI and Koukia. The contribution from the Lumley businesses was for the period from October 2003 to the end of June 2004.

Operating revenue of \$879.2 million was achieved with solid support from all market sectors.

The earnings contribution (before goodwill amortisation) of \$95.8 million was substantially above expectations and for the three insurance businesses represents record performance.

### YEAR IN BRIEF

The major achievement for the 2003/04 year was the successful completion of the Lumley acquisition and the integration of the Lumley businesses into the newly formed insurance division.

Importantly, during the integration process, focus was maintained on our core business activities with outstanding financial performance being achieved.

Lumley General (Australia) achieved a strong result, notwithstanding a fall in its insurance margin to 18.5 per cent, compared with 19.7 per cent in the previous corresponding period and the combined operating ratio ("COR") increasing to 85.1 per cent from 83.6 per cent previously. The result was characterised by a generally benign claims environment despite a severe storm event in Victoria in December 2003. Gross written premium ("GWP") for the period increased 0.6 per cent compared with the previous corresponding period.

## INSURANCE

Lumley General (New Zealand) performed ahead of expectations due to strong revenue growth and a generally favourable claims environment. The COR improved to 87.1 per cent from 89.0 per cent previously. The insurance margin of 14.8 per cent, compared with 12.7 per cent in the corresponding period last year, was adversely affected by a one in 100 year storm and flooding event that occurred in the lower North Island of New Zealand in January 2004. GWP increased 17.4 per cent compared with the corresponding period last year.

Wesfarmers Federation Insurance experienced higher than anticipated crop insurance claims, more than offset by lower claims in the non-crop insurance business. Overall the result was ahead of expectations with the insurance margin increasing to 16.0 per cent compared with last year's 13.3 per cent. The COR improved to 88.1 per cent from 90.8 per cent previously. GWP increased 13.5 per cent compared with the previous year.

Integration of the Lumley businesses is proceeding as planned with a number of initiatives underway to standardise procedures and practices and enable modest synergy benefits to be realised, mainly in relation to shared information technology services. Wesfarmers' management systems, including: management reporting; performance measurement; treasury; company secretarial; corporate planning and human resources have now been implemented in all of the Lumley businesses.

The premium funding operations performed creditably in an extremely competitive environment. In addition to their profit contribution these businesses provide valuable support to our insurance operations and enable a broader engagement with our supporting intermediaries.

Koukia continued its development of a new general insurance system which is being deployed within both WFI and LGNZ. Progress to date is very pleasing and considerable interest from other insurers, both within and outside Australia, is being received.

### OUR PEOPLE

The cultural alignment between the Lumley group and Wesfarmers Federation Insurance was apparent before the acquisition and has been confirmed as the Lumley team has been welcomed into Wesfarmers. Both have focused on developing values of customer service and prudent risk management. While there have been relatively few structural changes, the merger has created new career opportunities.

The depth of skills across the division provides a sound foundation to meet future challenges.

The exceptional results achieved over recent years are a direct reflection of the dedication and hard work of all employees.

A number of training and development programmes are in place as we continue to invest in our people and our future.

### OUTLOOK

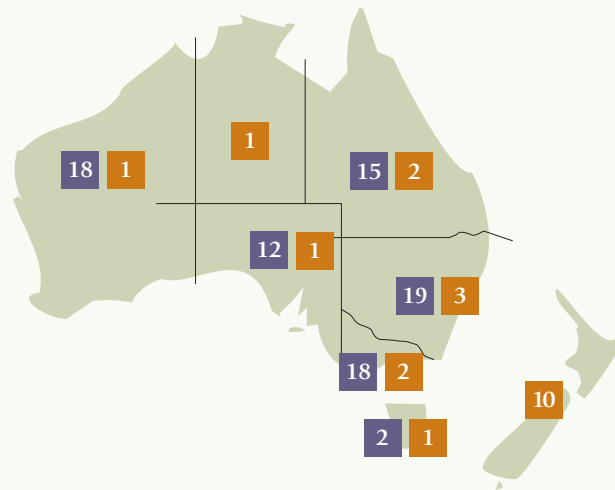
The outlook for the insurance division in 2004/05 is positive with all businesses commanding strong market positions.

After several years of increasing prices, there are signs that rates are stabilising and in some areas, coming under increasing competitive pressure. Against this background revenue growth is likely to be modest whilst margins are expected to remain satisfactory.

INSURANCE

BUSINESSES

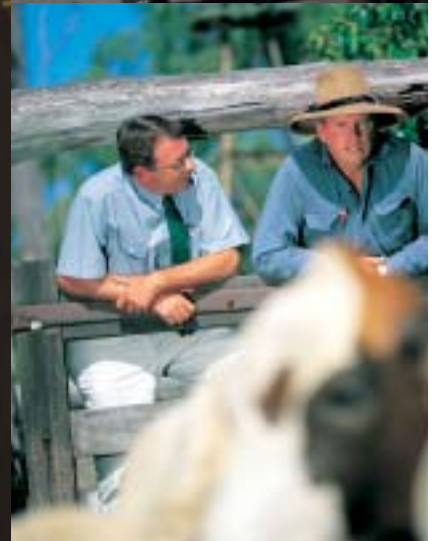
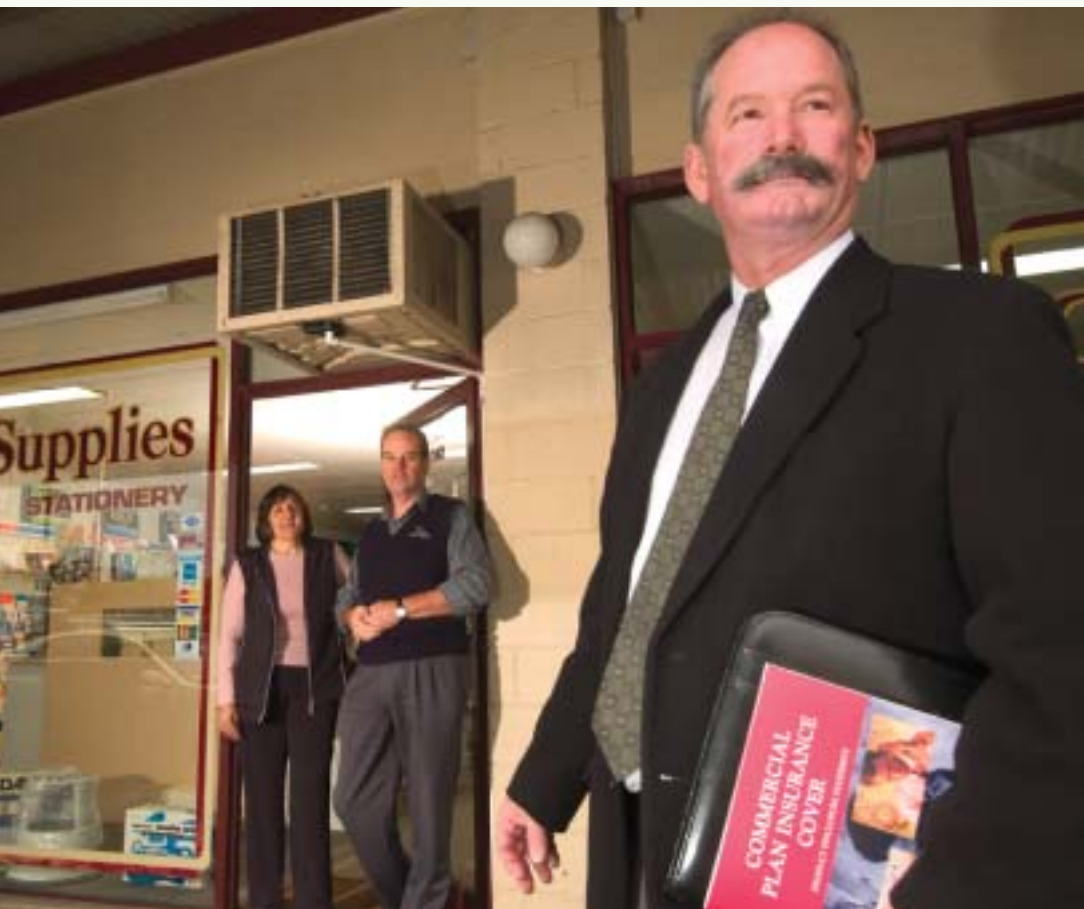
	No.
■ Wesfarmers Federation Insurance	84
■ Lumley	21



QUICK FACTS

1,400 employees  
105 branches

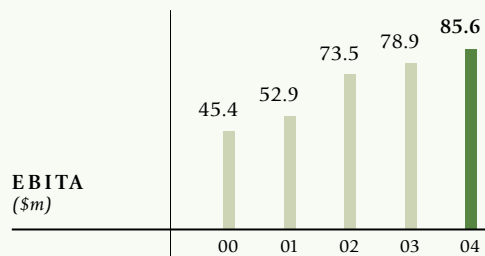
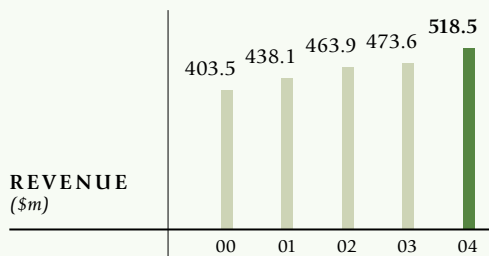
- Below:** *Wesfarmers Federation Insurance (WFI) Area Manager Wes Costin with small business owners Ray and Irene Bassett in Geelong, Victoria.*
- Top right:** *Lumley's Ray Coleman (right) with Reg Wallin (centre) and insurance broker Carl Parrilla (left) at the Collex depot in Camellia, New South Wales.*
- Bottom right:** *Stuart Lusty WFI Area Manager (left) and client Ewen Besch at a cattle property in Central Queensland.*



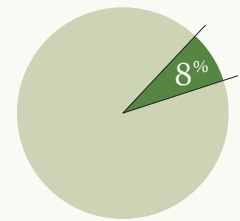
## Chemicals and fertilisers

### KEY FINANCIAL INDICATORS

	00	01	02	03	04
Operating revenue (\$m)	403.5	438.1	463.9	473.6	518.5
Earnings before interest, tax and goodwill amortisation (\$m)	45.4	52.9	73.5	78.9	85.6
Capital employed (\$m)	483.7	506.2	515.0	491.1	482.6
Return on capital employed (%)	9.4	10.5	14.3	16.1	17.7
Capital expenditure (\$m)	46.2	23.6	23.9	19.2	34.6



### CONTRIBUTION TO GROUP EBITA



(From left to right) Erin Cahill, Area Manager Moora, Stephen Loss, Field Research Manager, and Agricultural Officer Daniel Bell, inspect fertiliser and seed placement field trials, at Dandaragan, Western Australia.

## CHEMICALS AND FERTILISERS

## CSBP is a major manufacturer and supplier of chemicals, fertilisers and related services.

**KEITH GORDON**

*Managing Director,  
CSBP Limited*



### OUR BUSINESS

CSBP is one of Australia's major suppliers of chemicals, fertilisers and related services to the mining, minerals processing, industrial and agricultural sectors.

### STRATEGY

In chemicals, CSBP's strategy is to profitably build on existing businesses and use its core competencies to develop new products and move into new markets. CSBP is pursuing expansion opportunities in the ammonium nitrate and sodium cyanide businesses.

In fertilisers, CSBP strives to provide Western Australian farmers with the widest range of quality fertilisers at competitive prices, supported by leading technical support and high customer service standards.

### RESULTS

Operating revenue of \$518.5 million increased 9.5 per cent with higher sales achieved in both chemicals and fertilisers. Earnings before interest and tax (before goodwill amortisation) of \$85.6 million were 8.5 per cent above last year's \$78.9 million.

The company's chemicals activities performed well with increased revenues recorded in most product groups. Production volumes from ammonium nitrate and sodium cyanide operations improved during the year while ammonia production was steady.

CSBP's 50 per cent investment in the Queensland Nitrates ammonium nitrate joint venture recorded an increased profit in 2003/04. Positive earnings were recorded in CSBP's result this year for the first time.

Total fertiliser sales of 1.1 million tonnes were 7.1 per cent higher with over 98 per cent of these sales

occurring in Western Australia. The lift in sales reflects CSBP's stronger market focus and continued growth in demand for Flexi-N, CSBP's liquid fertiliser. These factors, combined with cost base and supply chain efficiency gains, resulted in an increase in earnings in the fertiliser business.

### YEAR IN BRIEF

#### Chemicals

*Ammonia/ammonium nitrate* - External and internal demand for ammonia improved in 2003/04. The ammonia plant at Kwinana in Western Australia performed steadily and a major maintenance and expansion shutdown of the plant in May 2004 was completed. Due to the shutdown, total annual ammonia production volumes were 95 per cent of last year's level.

Ammonium nitrate sales volumes exceeded last year's due to strong demand from the Australian resources sector. Production of ammonium nitrate from Kwinana increased 13 per cent over last year.

CSBP is currently conducting a feasibility study on the potential expansion of its ammonium nitrate capacity by the construction of a duplicate plant and new prilling tower at Kwinana. This will double current production volumes. The capital cost of these works is estimated at between \$130 million and \$140 million.

Production of ammonium nitrate at Kwinana is currently sold out and further demand is anticipated in light of strengthening resource commodity prices, new projects announced by major mining companies and growth in demand for Flexi-N. Subject to

## CHEMICALS AND FERTILISERS

completion of the feasibility study and receipt of regulatory approvals, construction is planned to commence in 2005 with production on-line in the second half of the 2006/07 financial year.

During the year, CSBP increased its investment in the Queensland Nitrates ammonium nitrate joint venture which is owned equally by CSBP and Dyno Nobel Asia Pacific Limited. Production performance at the plant exceeded design capacity in 2003/04 and the joint venture achieved an improved financial result.

*Sodium cyanide* - The 75 per cent-owned Australian Gold Reagents business recorded liquid sodium cyanide sales in line with expectations. Export sales of solid sodium cyanide into African and South American markets increased during the year as production from the solids plant reached full capacity. Increased demand for sodium cyanide is expected to support increased export sales and further expansion of this business in 2004/05.

*Industrial chemicals* - Sales and production of chlorine and derivatives declined slightly during the year. Sales of other traded industrial chemical products were in line with expectations.

### Fertilisers

Market and seasonal conditions for fertilisers in Western Australia improved during the past year.

CSBP continued a strong market-focused approach working with and through distributors - in particular AWB Landmark and Elders - to meet the needs of farmer customers. Product range and technical service improvements, higher service levels and competitive pricing continued to be features of CSBP's approach from which a 7.1 per cent increase in sales volumes in 2003/04 was achieved.

Approximately half of the fertiliser volumes sold are locally manufactured and efforts to enhance the manufactured product range and lower production costs were successful in 2003/04. State-of-the-art product blending and despatch facilities were installed during the year at CSBP's Albany and Bunbury facilities in Western Australia.

The strong demand for liquid fertiliser products, in particular Flexi-N, continued. CSBP's commitment to ongoing research and development combined with expanding production and storage facilities

will meet the growing liquid fertiliser demand in Western Australia.

### ENVIRONMENT

All plants operated within their environmental licence parameters throughout the year apart from two minor breaches notified by CSBP to the Department of Environment. A highlight of CSBP's environmental programme was the launch in June 2004 of a purpose-built nutrient stripping wetland at Kwinana, Western Australia.

CSBP makes significant disclosures of its environmental, safety and occupational health performance in line with its commitment to openness in reporting to the community through Wesfarmers' Social Responsibility Report.

### OUR PEOPLE

The commitment and effort of CSBP's employees contributed strongly to the continued lift in business performance.

Safety performance improved markedly over the prior year with a 50 per cent reduction in lost time injuries and a 34 per cent reduction in total workplace injuries. This improvement is the result of a stronger safety focus within the business supported by enhancements to safety systems. CSBP's objective is to achieve an accident-free workplace.

CSBP continued its support for education, training and a wide range of community activities.

### OUTLOOK

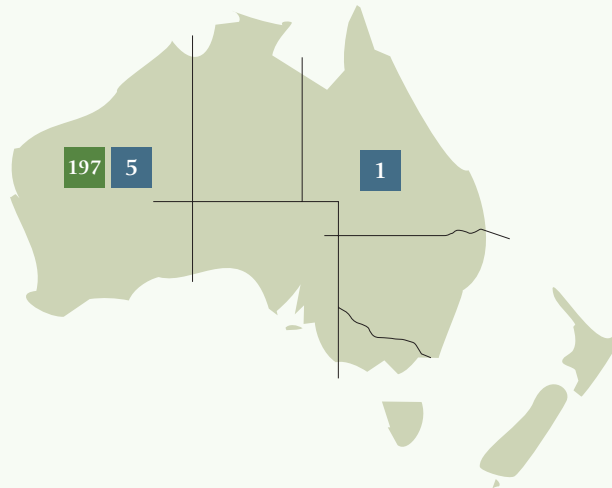
Strong demand conditions provide a favourable environment for CSBP's core chemicals products: ammonia, ammonium nitrate and sodium cyanide. Expansion and enhancement of production facilities to meet this demand is being evaluated.

Within Western Australia there is a positive outlook for the 2004 harvest that should maintain good fertiliser market conditions. Growth in this market through a stronger market offer is anticipated, with cost base and supply chain improvements underpinning pricing competitiveness. Markets for fertilisers beyond Western Australia continue to be actively pursued.

CHEMICALS AND FERTILISERS

BUSINESSES

	No.
<b>CSBP fertilisers</b>	<b>197</b>
Manufacturing plants	5
Import and distribution centres	5
Depots	6
Soil and plant analysis laboratory	1
Regional sales representatives	26
Sales agents	154
<b>CSBP chemicals</b>	<b>6</b>
Manufacturing and despatch facilities	6



QUICK FACTS

- 550** employees
- 250** chemicals customers
- 2** major fertiliser distributors servicing over 5,000 farmers
- 11** operational manufacturing plants

**Below:** Thiess contractors working on the ammonia plant upgrade at CSBP's Kwinana works in Western Australia.

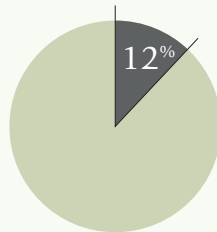
**Top right:** Process Technician Adam Turner at the Queensland Nitrates plant, near Moura in Queensland.

**Bottom right:** Laboratory Technicians My Linh Tran (left) and An Tran at the CSBP Soil & Plant Analysis Service, Bibra Lake, Western Australia.



## Other activities

CONTRIBUTION TO GROUP EBITA



### Rail transport

Wesfarmers Limited holds a 50 per cent interest in Australian Railroad Group Pty Ltd (ARG), which is the major provider of rail freight services in Western Australia and South Australia. The main products handled are minerals and grain. ARG has approximately 1,000 employees.

ARG's subsidiary, WestNet Rail Pty Ltd, holds a 49 year lease over the 5,600 kilometre rail network in south-west Western Australia. ARG also holds a 50 year lease over some 1,300 kilometres of track in South Australia. These lines are used, under regulated open access regimes, by ARG and other rail operators.

ARG aims to earn satisfactory returns by focusing on efficient operations, working as a team and achieving market growth; while maintaining high safety standards.

Revenues for the 2003/04 year were above the previous year due mainly to higher grain volumes in Western Australia and South Australia, higher iron ore volumes and a new contract in New South Wales.

Pre-tax earnings were also above the previous year due to increased revenue, an improved incident and safety performance, partly offset by an increase in fuel prices and establishment costs for new contracts.

Overall volumes hauled were some 50 million tonnes, up from 45 million tonnes in 2002/03.

A record 2003/04 grain harvest in Western Australia and a near-record in South Australia resulted in approximately 10 million tonnes of grain being handled, up from seven million tonnes in 2002/03.

Tonnages for iron ore and products associated with the nickel industry were also higher, with tonnages for other products around the previous year's levels.

A highlight of the year was a significant reduction in the lost time injury frequency rate from 11.4 last year to 0.5.

During the year ARG expanded its bulk haulage operations into New South Wales and won a contract for haulage from the new Mt Gibson iron ore mine to Geraldton port. It continues to evaluate new business opportunities.

Capital expenditure included the refurbishment of locomotives and the recommissioning of a number of previously unutilised wagons to meet grain demand.

To meet ongoing operating and safety requirements, WestNet Rail continued a programme of infrastructure upgrades including a major upgrade of the Toodyay to Miling line in Western Australia. An acoustic monitoring system installed in early 2004 has resulted in a significant reduction in the number of wheel bearing related incidents.

ARG continued as rail operator for construction of the Alice Springs to Darwin project until track laying was completed in October 2003. Train services commenced in early 2004 and ARG maintains an involvement as the provider of locomotives, wagons, crews and management services to the rail operator and as a minor equity investor.

## OTHER ACTIVITIES

The performance of ARG is expected to improve in 2004/05 due to a continuation of strong grain and other bulk commodity volumes and operational efficiencies.

There are indications of expansion in the next several years by some of ARG's major mineral producing customers and the potential for some new projects emerging in Western Australia. ARG will continue to consolidate its operations in New South Wales and examine new opportunities as they arise.

### Gresham Partners

Wesfarmers owns a 50 per cent interest in Gresham Partners Group Limited, the holding company for the Australian investment banking activities of Gresham Partners.

With offices in Sydney, Melbourne and Perth, Gresham's main activities are corporate finance, private equity and property advisory and investment businesses.

Its corporate finance business is focused upon mergers and acquisitions; industry consolidations; and the provision of strategic financial advice to a wide array of Australian businesses.

Its property activities have seen it establish two funds with committed capital of more than \$125 million, engaged in providing mezzanine debt for property projects.



The private equity activities have been centred upon investing in management buy outs of significant commercial businesses. With aggregate commitments across its two private equity funds exceeding \$400 million, Gresham Private Equity has made nine significant investments. These include the Australian automotive parts business Repco; the Australian ATM operator Cashcard; the Australian luxury power boat builder Riviera; and the New Zealand electrical appliance retailer Noel Leeming.

Wesfarmers, in addition to its initial shareholding in the Gresham Partners Group, contributed \$100 million to the first Gresham Private Equity Fund, established in 1999, and has committed up to \$150 million to the second Fund launched early in 2004.

Wesfarmers is engaged in the Investment and Advisory Committees of these Private Equity Funds, as well as providing a member of its Business Development team on secondment to Gresham Private Equity.

As is typical in the private equity sector, each fund is closed-ended and aims to exit all of its investments, returning net proceeds to investors, within 10 years of inception.

In 2003/04 Wesfarmers earned \$73 million, pre-tax, from its investment in the first Private Equity Fund. Future contributions, which will depend on the timing of divestments, are expected to make a worthwhile contribution to earnings.

### Forest products

Operating revenue from Sotico's forest products business was below budget and last year's due to divestments and the voluntary reduction of hardwood log intake. Earnings for the year were slightly above budget but below last year's. Wespine Industries, in which Wesfarmers has a 50 per cent interest, performed soundly over the year due to the ongoing strength of demand from the Western Australian housing construction market.

In August 2004, Sotico's jarrah business assets were sold for \$29 million, including \$18 million of timber stocks. This sale is the final step in the restructuring of the Sotico operations announced in May 2001. The group's only remaining active involvement in the forest products industry is its 50 per cent interest in the Wespine plantation pine sawmill at Dardanup in Western Australia.

## Board of directors

TREVOR EASTWOOD AM



MICHAEL CHANEY AO



COLIN CARTER



PATRICIA CROSS



TREVOR FLÜGGE AO



### TREVOR EASTWOOD AM

*Non-executive Chairman; Chairman of the Nomination and Remuneration Committee; age 62*

Joined the Board in 1994 and was appointed Chairman in December 2002. Trevor holds a Bachelor of Engineering degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1982. He commenced his career with the group as an employee of Westralian Farmers Co-operative Limited in 1963 and held a number of management positions in the group up to his retirement in 1992, including his final eight years as Managing Director of Wesfarmers Limited. Trevor is a director of Qantas Airways Limited and Perron Group Limited. He was formerly Chairman of West Australian Newspapers Holdings Ltd.

### MICHAEL CHANEY AO

*Managing Director and Chief Executive Officer; age 54*

Joined the Board in 1988. Michael holds Bachelor of Science and Master of Business Administration degrees from the University of Western Australia. He has also been awarded an Honorary Doctorate of Laws from the University of Western Australia. He completed the Advanced Management Program at the Harvard Business School in 1992. Michael is Chief Executive Officer and a director of a number of Wesfarmers group subsidiaries. He worked in the finance and petroleum industries in Australia and the United States of America before joining Wesfarmers in 1983. Michael is a director of BHP Billiton Limited, Gresham Partners Holdings Ltd, The Centre for Independent Studies Ltd and Vice-President of the Business Council of Australia. He is a member of the Council of the National Gallery of Australia and the JPMorgan International Council and Chairman of Australian Research Alliance for Children and Youth Limited.

### COLIN CARTER

*Non-executive director; member of the Nomination and Remuneration Committee; age 61*

Joined the Board in 2002. Colin holds a Bachelor of Commerce degree from Melbourne University and a Master of Business Administration from Harvard Business School. He has had extensive experience advising on corporate strategy and corporate governance and his consultancy career has included major projects in Australia and overseas. Colin is a director of Origin Energy Limited, Melbourne 2006 Commonwealth Games Pty Ltd, Melbourne Affordable Housing Pty Ltd and Australian Charities Fund Pty Ltd. He is also Chairman of the Indigenous Enterprise Partnerships, a Commissioner of the Australian Football League and an adviser to, and former Vice-President of, The Boston Consulting Group.

### PATRICIA CROSS

*Non-executive director; member of the Nomination and Remuneration Committee; age 45*

Joined the Board in 2003. Patricia holds a Bachelor of Science degree (Econ) with Honours from Georgetown University. She is a director of Qantas Airways Limited and Chairman of Qantas Superannuation Limited. Patricia has had 25 years experience in international banking and finance, having served two years with the U.S. government, over 15 years in management and executive roles with Chase Manhattan Bank, Banque Nationale de Paris, National Australia Bank and eight years as a non-executive director with organisations including the Transport Accident Commission (Deputy Chairman), Suncorp Metway Limited and AMP Limited. She has also served on a variety of not-for-profit boards including the Murdoch Children's Research Institute, and as an honorary advisor to the Federal Treasurer on the Financial Sector Advisory Council and the Companies and Securities Advisory Committee.

### TREVOR FLÜGGE AO

*Non-executive director; member of the Audit and Nomination and Remuneration Committees; age 57*

Joined the Board in 1998. Trevor is Chairman of Australian Wool Services Limited (AWS) and Andar Holdings Limited. He is a director and Chairman of AWS subsidiaries TWC Holdings Pty Limited and The Woolmark Company Pty Ltd. He is also a member of the Rabobank Food & Agribusiness Advisory Board. He is a former Chairman of AWB Limited and past President of the Grains Council of Australia and a past director of the Grains Research and Development Corporation. Trevor received the Monash University/Rabobank Agribusiness Leader of the Year award in 1998 and in 1997 was awarded the Farer Memorial Medal for his contribution to agriculture.

### LOU GIGLIA AM

*Non-executive director; member of the Nomination and Remuneration Committee; age 63*

Joined the Board in 1984. Lou is Chairman of Westpork Pty Ltd and a director of Farmwest Services Limited (formerly the Herd Improvement Service Board). He is past President of The Royal Agricultural Society of Western Australia (Inc), past member of the advisory boards of National Foods Limited, the Dairy Industry Authority of Western Australia and past President of the Holstein Friesian Association of Australia.

### RICHARD GOYDER

*Deputy Managing Director and Chief Financial Officer; age 44*

Joined the Board in 2002. Richard has a Bachelor of Commerce degree from the University of Western Australia and completed the Advanced Management Program at the Harvard Business School in 1998. He joined

Wesfarmers in 1993 after working in various commercial roles at Tubemakers of Australia Limited. He has held a number of positions in Wesfarmers' Business Development Department including General Manager. In 1999 Richard was appointed Managing Director of Wesfarmers Landmark Limited (formerly Wesfarmers Dalgety Limited), a position he retained until his appointment as Finance Director of Wesfarmers Limited in 2002. He was appointed Deputy Managing Director and Chief Financial Officer of Wesfarmers Limited in May 2004. Richard is a director of a number of Wesfarmers group subsidiaries. He is also a director of Gresham Partners Holdings Ltd, Australian Railroad Group Pty Ltd, the West Australian Symphony Orchestra and a member of the University of Western Australia Business School Advisory Board.

#### **JAMES GRAHAM**

*Non-executive director; member of the Audit Committee; age 56*

Joined the Board in 1998. James holds a Bachelor of Engineering in Chemical Engineering degree with Honours from the University of Sydney, a Master of Business Administration degree from the University of New South Wales and is a Fellow of the Australian Academy of Technological Sciences and Engineering. He has had an active involvement in the growth of Wesfarmers since 1976 in his roles as Managing Director of Gresham Partners Limited and previously as a director of Hill Samuel Australia Limited and Managing Director of Rothschild Australia Limited. In addition to his investment banking activities, James is Chairman of Rabobank Australia Limited and of Rabo Australia Limited, and is a director of Wesfarmers Federation Insurance Limited, Lumley General Insurance Limited and Riviera Group Pty Ltd. He is also Chairman of the Advisory Council of The Institute for Neuromuscular Research, a trustee of the Gowrie Scholarship Trust Funds and was Chairman of the Darling Harbour Authority in New South Wales for a period of six years.

#### **DICK LESTER**

*Non-executive director; member of the Audit Committee; age 65*

Joined the Board in 1995. Dick is a graduate with Honours from Dookie Agricultural College, Victoria and is a licenced property valuer. He was Principal and Chief Executive Officer of Growth Equities Mutual Limited until he sold his interest in that organisation in 1994. He was an inaugural member of the Companies and Securities Advisory Committee established by the Federal Attorney General to advise the Australian Government on securities industries laws. Dick is actively involved in real estate investment and development in the Perth metropolitan area and south-west regions of Western Australia. He is Chairman of the Western Australian Institute for Medical Research Inc.

#### **CHARLES MACEK**

*Non-executive director; member of the Audit Committee; age 57*

Joined the Board in 2001. Charles holds a Bachelor of Economics degree and a Master of Administration from Monash University. Charles is Chairman of the Financial Reporting Council and Sustainable Investment Research Institute Pty Ltd. He is also a director of Telstra Corporation Limited, Vertex Capital Pty Ltd and Williamson Community Leadership Program Ltd. Charles was formerly Chairman of IOOF Holdings Ltd and the Centre for Eye Research Australia Limited.

#### **DAVID ROBB**

*Executive Director and Managing Director of Wesfarmers Energy Limited; age 50*

Joined the Board in July 2004. David holds a Bachelor of Science degree from the University of Western Australia, a Graduate Diploma in Personnel Administration from Deakin University, and completed the Advanced Management Program at the Harvard Business School in 1999. He joined Wesfarmers in 1995 after working in the oil industry in Australia, the UK, the USA and Asia. David was appointed General Manager, Business Development for the group in 1996 and Managing Director, Wesfarmers Energy Limited in 1999. He is a director of a number of Wesfarmers group subsidiaries and associated companies.

#### **GENE TILBROOK**

*Executive Director, Business Development; age 53*

Joined the Board in 2002. Gene holds Bachelor of Science and Master of Business Administration degrees and a Diploma in Computing Science from the University of Western Australia. He completed the Advanced Management Program at the Harvard Business School in 1998. Gene joined Wesfarmers in 1985 and has held a number of commercial positions in Wesfarmers' Business Development Department, which he currently heads; and at Wesfarmers Energy. He previously worked in corporate finance and in systems engineering. He is a director of a number of Wesfarmers group subsidiaries and is also a director of Bunnings Property Management Limited, Gresham Partners Holdings Ltd and Australian Railroad Group Pty Ltd.

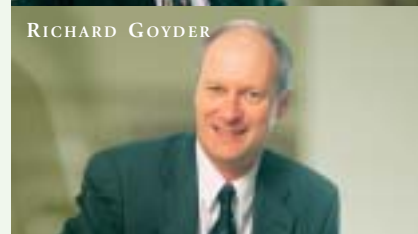
#### **DAVID WHITE**

*Non-executive director; Chairman of the Audit Committee; age 56*

Joined the Board in 1990. David holds a Bachelor of Business degree from Curtin University and is a fellow of CPA Australia. He is Chairman of the Wheatbelt Area Consultative Committee and Treasurer of The Royal Agricultural Society of Western Australia (Inc).



LOU GIGLIA AM



RICHARD GOYDER



JAMES GRAHAM



DICK LESTER



CHARLES MACEK



DAVID ROBB



GENE TILBROOK



DAVID WHITE

## Corporate governance statement

The Board is a strong advocate of corporate governance and seeks to ensure that the company fulfils its corporate governance obligations and responsibilities to all its stakeholders.

On 31 March 2003, the Australian Stock Exchange released the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles"). In conjunction with the ASX Listing Rules, the ASX Principles require companies to disclose in their annual reports whether their corporate governance practices follow the ASX Principles on an "if not, why not" basis.

Following the release of the ASX Principles, Wesfarmers conducted a review of its existing corporate governance policies and practices. Upon completion of this review, Wesfarmers concluded that it substantially complied with most of the ASX Principles, and the Board updated or replaced its policies where improvements were considered appropriate.

In September 2003, the company launched a comprehensive corporate governance page on its website ([www.wesfarmers.com.au](http://www.wesfarmers.com.au)). The website includes copies or summaries of key corporate governance policy documents including:

- Audit Committee Charter
- Board Charter
- Board Code of Conduct
- Code of Ethics and Conduct
- Continuous Disclosure Policy
- Nomination and Remuneration Committee Charter
- Share Trading Policy

In addition, the website includes discussion on key corporate governance issues such as risk management, director independence and remuneration policy. The website is reviewed by the company regularly and updated to ensure the information is current and accurate.

Details of Wesfarmers' compliance with the ASX Principles and its main corporate governance practices for the year ended 30 June 2004 are disclosed in this statement.

### THE ROLES OF THE BOARD AND MANAGEMENT

The role of the Board is to oversee and guide the management of Wesfarmers and its businesses with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community.

The Board has a charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities. A summary of the Board Charter has been posted on the corporate governance section of the company's website.

The Board is responsible for setting the strategic direction of the company, establishing goals for management and monitoring the achievement of those goals. The Managing Director is responsible to the Board for the day-to-day management of the company.

The roles and responsibilities of the company's Board and management are consistent with those set out in ASX Principle 1.

### BOARD STRUCTURE

On 5 May 2004, the Board announced that the company's Managing Director, Mr Michael Chaney, would retire when his current contract expired in July 2005. The Board further announced that

## CORPORATE GOVERNANCE STATEMENT

Mr Richard Goyder had been appointed to the position of Deputy Managing Director, and would become Managing Director upon Mr Chaney's retirement. Mr David Robb, Managing Director of Wesfarmers Energy Limited was appointed to the Board as an executive director in July 2004.

As a result, the Board is currently comprised of nine non-executive directors, including the Chairman, and four executive directors. Upon the retirement of Mr Chaney, the number of directors will revert to the preferred range of between 8 and 12.

The names of the directors in office at the date of this report, the year of their appointment, their status as non-executive, executive or independent director and whether they retire at the 2004 annual general meeting are set out in the table below.

Details of the background, experience and professional skills of each director are set out on pages 38 and 39 of this report.

## DIRECTOR INDEPENDENCE

Directors are expected to bring independent views and judgement to the Board's deliberations.

The Board Charter requires the Board to include a majority of non-executive independent directors, a non-executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer.

The Board has reviewed the position and associations of each of the 13 directors in office at the date of this report and considers that eight of the directors are independent. In considering whether a director is independent, the Board has had regard to the independence criteria in ASX Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

## BOARD STRUCTURE

Name of director	Year appointed	Non-executive	Executive	Independent	Retiring at 2004 AGM	Seeking re-election at 2004 AGM
T R Eastwood, <i>Chairman</i>	1994	Yes	No	Yes	No	No
C B Carter	2002	Yes	No	Yes	Yes#	Yes
M A Chaney, <i>Managing Director and Chief Executive Officer</i>	1988	No	Yes	No	No	No
P A Cross	2003	Yes	No	Yes	No	No
T J Flügge	1998	Yes	No	Yes	No	No
L A Giglia	1984	Yes	No	Yes	No	No
R J B Goyder, <i>Deputy Managing Director and Chief Financial Officer</i>	2002	No	Yes	No	No	No
J P Graham	1998	Yes	No	No	Yes#	Yes
R D Lester	1995	Yes	No	Yes	No	No
C Macek	2001	Yes	No	Yes	No	No
D A Robb, <i>Executive Director and Managing Director, Wesfarmers Energy Limited</i>	2004	No	Yes	No	Yes*	Yes
G T Tilbrook, <i>Executive Director, Business Development</i>	2002	No	Yes	No	No	No
D C White	1990	Yes	No	Yes	Yes#	Yes

\* Appointed by the Board on 6 July 2004 and required by the Constitution to retire at the 2004 annual general meeting.  
# Retiring by rotation in accordance with the Constitution and the Listing Rules of the Australian Stock Exchange.

## CORPORATE GOVERNANCE STATEMENT

The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the director. Materiality is considered from the perspective of the company, the director and the person or entity with which the director has a relationship.

The Chairman, Mr Trevor Eastwood, meets the independence criteria in ASX Principle 2 given the significant passage of time since he was Chief Executive Officer. Mr Eastwood was Chief Executive Officer of the company from 1984 to 1992 and was subsequently appointed as a non-executive director in 1994. Mr Eastwood was appointed Chairman in December 2002.

Mr Lou Giglia and Mr David White have been directors since 1984 and 1990 respectively. Notwithstanding their length of service, the Board considers that Mr Giglia and Mr White are independent directors in accordance with the independence criteria in ASX Principle 2, given their continued and demonstrated performance and ability to make objective judgements on matters before the Board.

The five directors who are not considered to be independent are:

- Mr Michael Chaney  
*Managing Director and Chief Executive Officer;*
- Mr Richard Goyder  
*Deputy Managing Director and Chief Financial Officer;*
- Mr James Graham  
*Non-executive director, who is Managing Director of Gresham Partners Limited, an investment adviser to the company;*
- Mr David Robb  
*Executive Director and Managing Director of Wesfarmers Energy Limited; and*
- Mr Gene Tilbrook  
*Executive Director, Business Development.*

The Board's structure is consistent with ASX Principle 2.

### MEETINGS OF THE BOARD

The Board meets formally at least eight times a year and on other occasions, as required. On the invitation of the Board, members of senior management attend and make presentations at Board meetings. Non-executive directors meet regularly without executive directors and management being present.

In May 2004, the Board held its annual strategic planning session with management at which the company's five year strategic plans for each operating activity and the group as a whole were presented. At this session, the Board reviewed and endorsed strategies designed to continue the long term profitable growth of the group.

The number of meetings held and attended by each of the directors for the financial year ended 30 June 2004 are set out in the directors' report on page 103 of this report.

### RETIREMENT AND RE-ELECTION

The Constitution of the company requires one third of the directors, other than the Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board are required to retire from office at the next annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting. Directors cannot hold office for a period in excess of three years or later than the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders. Under the Board Charter, the Chairman must retire from his position at the expiration of ten years unless the Board decides otherwise. In addition, his appointment is formally reviewed at the end of each three year period. Notwithstanding the company's Constitution, under the Board Charter and the company's letter of appointment for a non-executive director, a non-executive director is required to take into account the views of the other non-executive directors of the company when making a decision to stand for re-election as a director of the company. This year, the Nomination and Remuneration Committee assessed the performance of the directors seeking re-election and recommended to the Board that their nominations be supported.

### NOMINATION AND APPOINTMENT OF NEW DIRECTORS

Recommendations of candidates for new directors are made by the Board's Nomination and Remuneration Committee for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible

## CORPORATE GOVERNANCE STATEMENT

candidates is considered. In some cases, external consultants are engaged to assist in the selection process. If a candidate is recommended by the Nomination and Remuneration Committee, the Board assesses the qualifications of the proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must retire at the next following annual general meeting and will be eligible for re-election by shareholders at that annual general meeting.

New directors are provided with a letter of appointment setting out the terms and conditions of the appointments together with material detailing the operations, policies and practices of the company.

### REVIEW OF PERFORMANCE

The Nomination and Remuneration Committee is responsible for the review of Board performance. In May 2004, the performance of the Board and Audit Committee was evaluated through feedback obtained from the completion of a detailed questionnaire by the directors. This included a review of the performance of the Chairman of the Board, Chairman of the Audit Committee and also the Managing Director. The responses to the questionnaire were discussed at the Board's annual strategic planning session and recommendations for improvement were considered by the Board. As referred to above, the performance of individual directors is reviewed upon their nomination for re-election at the conclusion of their three year term.

Details of the review of the performance and remuneration policies for senior executives are set out in note 29 of the financial statements on pages 81 to 86 of this report.

### KNOWLEDGE, SKILLS AND EXPERIENCE

To assist directors to maintain an appropriate level of knowledge, skill and experience in the operations of the company, directors undertake site visits to familiarise themselves with the company's businesses.

Directors are also provided with papers, presentations and briefings on group businesses and on matters

which may affect the company. Directors are also encouraged to undertake continuing education relevant to the discharge of their obligations as directors of the company. Subject to prior approval by the Company Secretary, the reasonable cost of such education is met by the company.

### BOARD ACCESS TO INFORMATION AND INDEPENDENT ADVICE

All directors have unrestricted access to employees of the group and, subject to the law, access to all company records and information held by group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board committee. The company will reimburse the director for the reasonable expenses of obtaining that advice.

### COMMITTEES OF THE BOARD

Two standing Board committees assist the Board in the discharge of its responsibilities and are governed by their respective charters, as approved by the Board. These are:

- the Nomination and Remuneration Committee; and
- the Audit Committee.

These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board.

#### Nomination and Remuneration Committee

In August 2003, the Nomination and Remuneration Committee adopted a revised charter to reflect the requirements of the ASX Principles. Among the specific responsibilities set out in the revised charter, the Nomination and Remuneration Committee reviews and makes recommendations to the Board on the Board's operation and performance; reviews Board composition and makes recommendations for new appointments to the Board; establishes an induction programme for directors; reviews and makes recommendations on remuneration policies

## CORPORATE GOVERNANCE STATEMENT

for the company including, in particular, those governing the directors, the Managing Director and senior management. The members of the Nomination and Remuneration Committee at the date of this report are:

Mr Trevor Eastwood (*Chairman*)  
 Mr Colin Carter  
 Mrs Patricia Cross  
 Mr Trevor Flügge  
 Mr Lou Giglia

The composition, operation and responsibilities of the committee are generally consistent with ASX Principles 2 and 9.

The committee met five times during the financial year ended 30 June 2004. Details of the meetings attended by each committee member are set out in the directors' report on page 103 of this report. Consistent with ASX Principles 2 and 9, a summary of the committee's role, rights, responsibilities and membership requirements has been posted on the corporate governance section of the company's website.

### Audit Committee

The Audit Committee monitors internal control policies and procedures designed to safeguard company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4. In August 2003, the charter for the Audit Committee was revised in light of the ASX Principles. Among the specific responsibilities set out in its revised charter, the Audit Committee reviews all published accounts of the group; reviews the scope and independence of internal and external audits; monitors and assesses the systems for internal compliance and control, legal compliance and risk management; and advises on the appointment, performance and remuneration of the external auditors.

The members of the Audit Committee at the date of this report are:

Mr David White (*Chairman*)  
 Mr Trevor Flügge  
 Mr James Graham  
 Mr Dick Lester  
 Mr Charles Macek

The Deputy Managing Director and Chief Financial Officer; the General Manager, Group Business Services; the General Manager, Group Internal Audit; the Company Secretary; the external auditors and

any other persons considered appropriate attend meetings of the Audit Committee by invitation. The committee also meets from time to time with the external auditors independent of management. The composition, operations and responsibilities of the committee are consistent with ASX Principle 4. The committee met seven times during the financial year ended 30 June 2004. Four of these meetings were scheduled to coincide with results announcements made to the Australian Stock Exchange. Details of the meetings attended by each committee member are set out in the directors' report on page 103 of this report. Consistent with ASX Principle 4, the Audit Committee Charter has been posted on the corporate governance section of the company's website.

## FINANCIAL REPORTING

### CEO and CFO declaration

Consistent with ASX Principle 4, the company's financial report preparation and approval process for the financial year ended 30 June 2004, involved both the Chief Executive Officer and Chief Financial Officer providing a written statement to the Board that, to the best of their knowledge and belief, the company's financial report presents a true and fair view, in all material respects, of the company's financial condition and operating results and is in accordance with applicable accounting standards.

### International Financial Reporting Standards

In July 2002, the Financial Reporting Council announced that Australia would adopt International Financial Reporting Standards (IFRS). Following this announcement the company established a project team to facilitate the transition to IFRS, and the likely impacts of adoption are appropriately disclosed in the notes to this year's financial statements. The company will be required to first report under IFRS in its financial reports for the half-year ending 31 December 2005 and for the full-year ending 30 June 2006.

## REMUNERATION

### Non-executive directors

Details of non-executive directors' remuneration, which are generally consistent with ASX Principle 9, are set out in note 29 of the financial statements on pages 81 to 86 of this report.

The Board has proposed that a resolution will be put to the 2004 annual general meeting seeking to

## CORPORATE GOVERNANCE STATEMENT

increase the directors' fee pool limit to \$2.25 million. Further details of the proposed increase to the fee pool are provided in the 2004 notice of annual general meeting.

### Senior executives

Details of senior executives' remuneration, which are generally consistent with ASX Principle 9, are set out in note 29 of the financial statements on pages 81 to 86 of this report.

### AUDIT GOVERNANCE AND INDEPENDENCE

As part of the company's commitment to safeguarding integrity in financial reporting, the company has implemented procedures and policies to monitor the independence and competence of the company's external auditors.

#### Appointment of auditors

The company's current external auditors are Ernst & Young. The effectiveness, performance and independence of the external auditors is reviewed by the Audit Committee. If it becomes necessary to replace the external auditors for performance or independence reasons, the Audit Committee will then formalise a procedure and policy for the selection and appointment of new auditors.

#### Independence declaration

In respect of financial years commencing on or after 1 July 2004, the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 ("CLERP 9") amendments to the Corporations Act 2001 require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies.

Ernst & Young has provided such a declaration to the Audit Committee for the financial year ended 30 June 2004.

#### Rotation of lead external audit partners

In the 2003 annual report it was stated that the lead audit partner for the company would be rotated from 1 January 2004. At the 2003 annual general meeting, the Chairman advised shareholders that as a result of senior management changes within the

company, the decision to rotate the lead audit partner would be postponed. This policy and its application to the company will be reviewed in light of the CLERP 9 requirements for the rotation of auditors which apply for financial years beginning on or after 1 July 2006.

#### Restrictions on the performance of non-audit services by external auditors

The Audit Committee has implemented a process that requires the prior approval of the Company Secretary to the provision of any non-audit services to the company or its related companies by the external auditors. In cases of uncertainty, the issue is referred to the Audit Committee. The Audit Committee has also adopted guidelines to assist in identifying the types of services that may compromise the independence of the external auditors. Examples of services that potentially compromise independence include valuation services and internal audit services.

#### Attendance of external auditors at annual general meetings

Consistent with ASX Principle 6 and CLERP 9, Ernst & Young attend, and are available to answer questions at the company's annual general meetings. Shareholders may submit questions for the external auditors to the Company Secretary no later than five business days before an annual general meeting.

### RISK IDENTIFICATION AND MANAGEMENT

Consistent with ASX Principle 7, the company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. These include:

- guidelines and limits for approval of capital expenditure and investments;
- a group compliance programme supported by approved guidelines and standards covering such key areas as safety, the environment, legal liability, risk identification, quantification and reporting and financial controls;
- a comprehensive annual insurance programme including external risk surveys;

## CORPORATE GOVERNANCE STATEMENT

- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies and movements in interest rates;
- a formal dynamic planning process of preparing five year strategic plans each year for all businesses in the group;
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends;
- directors' financial due diligence questionnaires to management;
- appropriate due diligence procedures for acquisitions and divestments; and
- crisis management systems for all key businesses in the group.

Management is ultimately responsible to the Board for the group's system of internal control and risk management. The Audit Committee assists the Board in monitoring this role. During designated months of the year, each of the main divisions in the group are required to review and report to the Audit Committee on risks associated with legal liability, financial controls and environment, health and safety.

Following a comprehensive review of the company's risk management systems by an external consultant, a number of initiatives were commenced during the year to strengthen the approach to identifying, managing and reporting risks.

These initiatives included detailed annual risk reviews by each of the company's divisions. The risk reviews encompass operational, financial, strategic and compliance risk assessment and quantification.

The internal audit function is independent of the external audit function. The General Manager, Group Internal Audit, monitors the internal control framework of the group and provides reports to the Audit Committee. The Audit Committee approves the internal audit charter and the annual internal audit plan to ensure that planned audit activities are aligned to business risks. The Audit Committee also reviews internal audit reports issued by the General Manager, Group Internal Audit and monitors progress with recommendations made in these reports to ensure ongoing improvement in the internal control environment of the company.

In accordance with ASX Principle 7, the Managing Director and Chief Financial Officer have provided the Board with a written statement that:

- the statement given with respect to the integrity of the financial statements (referred to under the heading "Financial Reporting") was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the company's risk management and internal compliance and control system was operating efficiently and effectively in all material respects.

A description of the company's risk management policy and internal compliance and control system is available on the website.

### SHARE TRADING

Under the Constitution of the company, directors are required to hold, directly or indirectly, a minimum of 1,000 ordinary shares in the company within two months after their appointment and at all times during their term of office.

Under the company's share trading policy, all employees and directors of the company and its related companies are prohibited from trading in the company's shares or other securities if they are in possession of "inside information". Subject to this condition, and in the light of the ASX's continuous disclosure requirements, trading can occur at any time.

In addition, in order to trade, directors of the company must advise the Company Secretary of their intention to trade and must also have been advised by the Company Secretary that there is no known reason to preclude them trading in the company's shares or other securities. The company's share trading policy was revised in August 2003 and is consistent with ASX Principle 3.

A summary of the policy has been posted on the corporate governance section of the company's website.

### CONTINUOUS DISCLOSURE

The company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Stock Exchange's securities market and has adopted a comprehensive policy covering announcements to

## CORPORATE GOVERNANCE STATEMENT

the Australian Stock Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communication black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required. The Company Secretary has responsibility for overseeing and co-ordinating disclosure of information to the Australian Stock Exchange. The Company Secretary also liaises with the General Manager, Finance and the General Manager, Public Affairs in relation to continuous disclosure matters. The General Manager, Finance is responsible for overseeing and co-ordinating disclosure of information to analysts, brokers and shareholders. The General Manager, Public Affairs is responsible for overseeing and co-ordinating disclosure of information to the media. The company's continuous disclosure policy is consistent with ASX Principle 5. A summary of the policy has been posted on the corporate governance section of the company's website.

### ADDITIONAL COMPANY POLICIES

In addition to the continuous disclosure and share trading policies discussed above, the company has implemented a wide range of policies which have group wide application. These policies permit divisions to establish policies and procedures governing their own operations while seeking to ensure that a consistent approach and minimum acceptable standards are maintained across the group.

### COMMUNICATIONS WITH SHAREHOLDERS

The company places considerable importance on effective communications with shareholders. The company's communications strategy promotes the communication of information to shareholders through the distribution of the annual and half-yearly reports covering profit performance, announcements through the Australian Stock Exchange and the media regarding changes in its businesses and the Chairman's address at the annual general meeting. Wesfarmers posts all reports, Australian Stock Exchange and media releases and copies of significant business presentations and speeches on the company's website.

The company reviews and updates the contents of its website on a regular basis and provides a service

through its website which permits shareholders to receive notification of significant Australian Stock Exchange announcements by email.

The company regularly reviews its communication strategy and underlying policies and processes to ensure effective communication with shareholders is maintained.

A description of the arrangements the company has to promote communication with shareholders is also available on the website.

### CONDUCT AND ETHICS

In August 2003, the Board adopted the Code of Conduct produced by the Australian Institute of Company Directors to guide the directors and promote high ethical and professional standards and responsible decision making. The Board also endorsed the guidelines accompanying that Code.

In addition, the company adopted a replacement Code of Ethics and Conduct for all employees (including directors) in August 2003. The Code of Ethics and Conduct is aimed at maintaining the highest ethical standards, corporate behaviour and accountability across the group. Employees and directors are expected to respect the law; respect confidentiality; properly use group assets, information and facilities; value and maintain professionalism; avoid conflicts of interest; act in the best interests of shareholders; contribute to the company's reputation as a good corporate citizen; and act with honesty, integrity, decency and responsibility at all times.

The Code of Ethics and Conduct specifically provides that any employee who reports a breach of the Code will not be disadvantaged or prejudiced. A review of the company's policies is underway in light of the protection for whistleblowers contained in the CLERP 9 amendments to the Corporations Act.

Both the Board's Code of Conduct and the Code of Ethics and Conduct are consistent with ASX Principles 3 and 10 and summaries of both Codes have been posted on the corporate governance section of the company's website.

## Our people, our communities

*Janice Murray,  
Activities Organiser  
from Bunnings'  
Joondalup warehouse  
in Western Australia,  
and a primary school  
student at a school  
workshop.*



The way in which companies relate to their employees and the communities in which they operate is assuming increasing importance for investors and other stakeholders.

These issues form part of the developing concept of corporate social responsibility under which corporations are assessed in terms of their broader impacts on society - and whether, looked at in this way, a company's operations are likely to be sustainable over the long term.

Wesfarmers welcomes increased interest in an area that has always been fundamental to its way of doing business.

### PEOPLE

#### Wesfarmers as an employer

With about 30,000 people employed across the group (including almost 2,500 in New Zealand) Wesfarmers is a significant contributor to national and regional economies.

Employee wellbeing is a high priority. Consistent with the Wesfarmers operational philosophy, responsibility for most people issues rests with the business divisions. This includes recruitment, development, management and various strategies which enhance the capability and effectiveness of the company's workforce.

Despite the operational autonomy of the business divisions, a number of people management issues are handled on a group-wide basis. These include remuneration programmes, executive development and some human resources policies.

Wesfarmers places a strong emphasis on the ongoing training and career enhancement of its people. At a group level there is a focus on executive succession planning and the development of internal candidates for senior positions. Initiatives include an Executive Development Programme - an eight month action learning-based course introduced in 1996 - and the General Manager Forum, which focuses on commercial and leadership capabilities.

A biennial 'Best Practice Conference' has been held since 1993 featuring contributions from internal and external speakers aimed at broadening the knowledge base and experience of the several hundred attendees. The conference includes interactive case study sessions, conducted by a professor from the Harvard Business School, which provide detailed analysis of relevant corporate issues. The group also co-ordinates staff development opportunities such as Earthwatch Fellowships and the Leeuwin Ocean Adventure.

Business divisions tailor career progression, training and leadership development initiatives to meet their needs and to encourage retention and internal promotion of employees.

The group has adopted a number of human resources policies which promote a good working environment and statutory compliance, including a Code of Ethics

and Conduct covering employee behaviour. Business divisions may adopt their own specific standards that best match the circumstances of their activities but such codes must embody the principles laid down in the group Code. The Code is available on the company's Corporate Office intranet and a summary is posted on the company's website.

The group policy manual also requires strict adherence to anti-discrimination legislation and to the provision of equal opportunity workplaces. Each year, the Corporate Solicitors' Office conducts intensive interactive workshops to ensure staff are familiar with the provisions of the Trade Practices Act.

Wesfarmers has experienced a very low level of industrial disputation. It recognises the rights of employees to negotiate individually or collectively with or without the involvement of third parties. Employment agreements across the group vary from enterprise-based arrangements negotiated by unions to individual contracts under common law. All business divisions aim to foster a culture which promotes strong working relationships at all levels so that productivity is enhanced and a healthy working environment exists.

## THE COMMUNITY

### Wesfarmers as a corporate citizen

It is becoming reasonably commonplace for companies to be assessed and judged on a much broader range of performance issues. This happens at the level of the individual investor, by institutions with significant holdings and by organisations providing advice to entities such as superannuation trusts and investment funds with a particular focus on ethical or social responsibility issues.

The scrutiny encompasses many different aspects of "non-financial" accountability, including environmental responsibility, safety standards and performance and corporate philanthropy - in addition to the very important issue of how a company deals with its employees.

The Wesfarmers corporate objective (on the inside front cover of this report) specifically makes reference to most of these matters, some of which are dealt with in more detail in this section.

### The environment

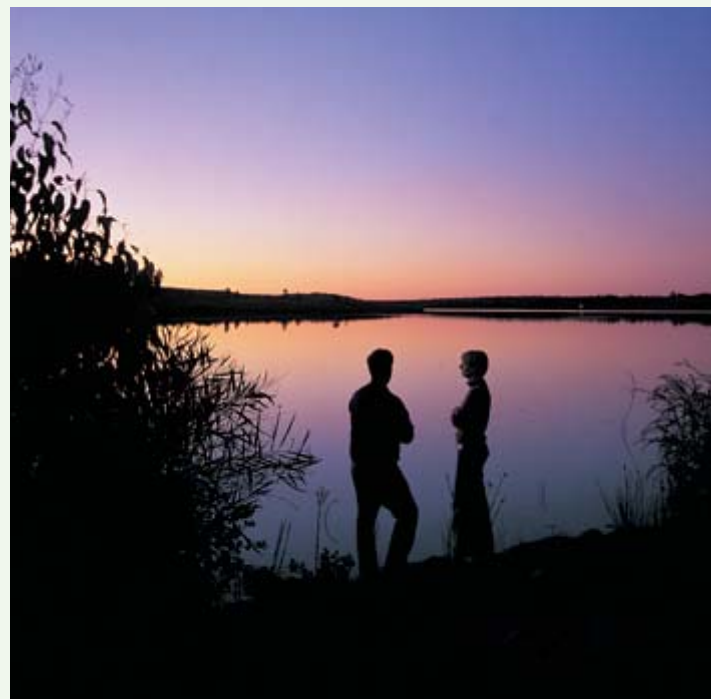
With its scale of operations, sector diversity and geographical spread, Wesfarmers has the potential to make significant impacts on the environment. The most relevant issues are minesite rehabilitation; emissions to air, land and water; waste disposal; and site contamination.

As with most other matters, day-to-day responsibility for environmental management is devolved to the operating entities. Each entity is accountable to its subsidiary board and, through the Audit Committee, to the Board of Wesfarmers Limited. Environmental performance is also disclosed publicly each year through the Social Responsibility Report (formerly the Environment, Health, Safety and the Community Report), referred to on the following page under the heading public accountability.

The company has an environmental policy which requires businesses to develop environmental management systems designed to meet the particular circumstances of their operations. The business systems and adherence to standards include compliance guidelines which, for Wesfarmers, represent the minimum requirement for each of its activities.

In addition, the company encourages its businesses to be proactive in developing initiatives that positively benefit the environment and the community.

*Premier Coal's rehabilitated minesite Lake Kepwari, Western Australia*



The Bunnings hardware business provides two current examples. In September 2003, Bunnings launched a campaign to tackle an issue of growing public concern - the impact of plastic bags on the environment. As a major retailer, where the issue of plastic carry bags to customers had reached massive proportions, Bunnings introduced a 10 cents per bag levy aimed at discouraging the use of this commodity, the disposal of which raises environmental issues. All proceeds are donated to the Keep Australia Beautiful Council (KABC), for use in community-based environmental campaigns. In addition, customers are encouraged to use free cardboard boxes or purchase reusable bags. This initiative has seen a reduction of more than 70 per cent in plastic bag use and donations to 30 June 2004 of more than \$100,000 to the KABC.

Bunnings also responded to community interest in the sourcing of its sawn timber and other wood products, relating particularly to overseas imports. The company is now implementing a policy which will require, over time, that all suppliers are able to produce independently-verified evidence that their products are sourced from legally-operating and sustainably-managed forest areas.

Other environment-benefiting initiatives include CSBP's sponsorship of the Chair of Cleaner Production at the John Curtin International Institute in Western Australia and Wesfarmers Premier Coal's rehabilitation of mined areas at Collie in Western Australia. In June 2004, Premier won the mining section of the prestigious national Banksia Award for leadership in sustainability.

*Team member Liz Canning distributing reusable woven bags as part of Bunnings' plastic bag reduction campaign.*



At the group level, in December 2003 the Board considered the result of the externally commissioned assessment of the company's greenhouse gas emissions profile, referred to in last year's annual report. The Board endorsed the findings of the report, including a requirement that business divisions, that had not already done so, conduct audits of their operations, specifically with regard to electricity use, and that there be ongoing monitoring of emissions by the Corporate Office. These recommendations have been implemented.

### Safety

Workplace safety is another issue that, while left in the hands of the business divisions to manage, is subject to group standards and reporting requirements. Wesfarmers has a zero accidents goal and a specific annual target for each operating business of a 50 per cent reduction in injury rates. This was achieved by three businesses - CSBP, Kleenheat Gas and Wesfarmers LPG. Part of the remuneration of each Divisional Managing Director and most of those who report to them is tied to safety performance improvement.

Each business unit is required to have a safety management system and to report through its subsidiary boards to the Board of Wesfarmers.

### Public accountability

Since 1998, Wesfarmers has published a comprehensive separate report detailing its performance with respect to the environment, and health and safety issues. In more recent years the scope of the report has been broadened to include aspects of the group's community relations programme as this is an important part of socially responsible behaviour.

Reporting in this level of detail remains voluntary for Australian corporations but Wesfarmers believes the public is entitled to know what it does and to be told about both the good and bad aspects of its activities in these areas. Over the years since the first publication, the report has become significantly more specific and informative as business divisions gradually develop the capacity to measure and account for these facets of their operations. Apart from the highly desirable goal of public accountability, the very fact that these matters are being reported externally inevitably adds to the incentive to improve.

The report is subjected to internal verification by the Corporate Office legal and risk management departments and undergoes an external review process overseen by the Snowy Mountains Engineering Corporation (SMEC). Its assessment is published in the report and management receives a very detailed critique of the document and the reporting process from SMEC which is used to maintain improvement. Last year Wesfarmers asked SMEC to make an assessment of the report against the criteria used in the Global Reporting Initiative, developed to help benchmark the efforts of companies to report on what are commonly referred to as triple bottom line or sustainability factors. This year's report, to be published in November, will further advance the company's progress towards coverage of corporate sustainability issues.

The Social Responsibility Report will be available electronically at [www.wesfarmers.com.au](http://www.wesfarmers.com.au) or by contacting the Public Affairs Department on (61 8) 9327 4251.

### Community contributions

Community engagement has been central to the operations of Wesfarmers since its foundation in 1914. In its earliest manifestation as a farmers' co-operative this meant being an integral part of many rural towns and districts. Today's Wesfarmers maintains the tradition through the customer interaction of many of its businesses and through a willingness to help in other ways.

The Board takes the view that it is in the interests both of the community and the company to provide direct assistance to organisations whose work either currently benefits or has the potential to significantly advantage the society in which we live. In deciding how and where to allocate the available funds (subject to an annual ceiling of 0.25 per cent of pre-tax profits), the company believes it can maximise the impact of its contributions by focusing on areas that have very broad application, such as medical research. As a result, Wesfarmers tends to concentrate its efforts by providing significant levels of financial support to a relatively small number of areas rather than a wider distribution of smaller amounts.

One of our major current partnerships is with the Institute for Child Health Research in Western Australia. The Institute, headed by Professor Fiona Stanley AC, specialises in the field of childhood cancer and is doing internationally-recognised work on the causes of and treatment for asthma, the most common chronic health problem for children and adolescents.



*From left Dr Richard Hopkins and Professor Fiona Stanley at the Telethon Institute for Child Health Research, Subiaco, Western Australia.*

On top of the funds flowing to the community from Wesfarmers Limited, very significant contributions are made by the operating business divisions. In the 2003/04 financial year, direct financial assistance from the Wesfarmers group totalled in excess of \$4.5 million.

As well as donations, the company runs a nationally-awarded arts sponsorship programme. In the year under review, Wesfarmers Arts provided about \$500,000 to major performing and visual arts organisations and to others centrally involved in fostering the development of the vibrant culture which is such an important part of a creative and tolerant society. Wesfarmers has embarked on an innovative new partnership with the Perth International Arts Festival under which the company will help fund five major new works in music, ballet, opera, drama and public art to be staged at the 2005-2007 festivals.

The two year national tour of selected works from the Wesfarmers art collection, referred to last year, continued to capital city and regional locations. In the year to June 2004 the "Sublime" exhibition was displayed in Melbourne and on the Mornington Peninsula in Victoria, Canberra, Mount Gambier in South Australia and Armidale in New South Wales. Since the start of the tour in November 2002, "Sublime" has been seen by more than 250,000 people.

## Investor information

### FINANCIAL CALENDAR

Final dividend payment, 92 cents per share	30 Aug 2004
Annual general meeting	8 Nov 2004
Half-year results and interim dividend announcement	Feb 2005
Half-year results summary mailed to shareholders	Mar 2005
Interim dividend payment	Mar 2005
Full-year results and final dividend announcement	Aug 2005
Final dividend payment	Aug/Sep 2005
Annual report mailed to shareholders	Oct 2005
Annual general meeting	Nov 2005

#### Shareholder inquiries

Please contact the company's share registry if you have questions about your shareholding or dividends.

Computershare Investor Services Pty Limited  
Level 2, 45 St George's Terrace, Perth, Western Australia 6000

Investor inquiries:

Within Australia: 1300 557 010

Outside Australia: (+61 3) 9415 4000

Facsimile:

Within Australia: (08) 9323 2033

Outside Australia: (+61 8) 9323 2033

Website: [www.computershare.com.au](http://www.computershare.com.au)

When communicating with the share registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHES statements.

#### Wesfarmers website

Wesfarmers website address is:  
[www.wesfarmers.com.au](http://www.wesfarmers.com.au)

#### Stock exchange listing

Wesfarmers shares are listed on the Australian Stock Exchange and reported in the industrial section in daily newspapers - code WES. Share prices can also be accessed on the Wesfarmers website or at [www.asx.com.au](http://www.asx.com.au).

#### Dividend investment plan

The company's dividend investment plan has, for the time being, been suspended while the company's debt levels remain low. The plan is expected to be reinstated when gearing has risen to target levels.

Shareholders will be advised when the plan is to be recommenced. Shareholders who were participants in the plan when it was suspended will automatically be reinstated unless they have advised the share registry that they do not wish to participate in the plan.

Details of the plan can be obtained from the share registry or the Wesfarmers website.

#### Electronic payment of dividends

Shareholders may nominate a bank, building society or credit union account for the payment of dividends by direct credit. Payments are electronically credited on the dividend payment date and confirmed by a mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the share registry. An appropriate form can be downloaded from the share registry website.

#### Uncertificated share register

The Wesfarmers share register is uncertificated. Two forms of uncertificated holdings are available to shareholders:

*Issuer sponsored holdings.* These holdings are sponsored by Wesfarmers and there is no need for shareholders to be sponsored by a stockbroker.

*Broker sponsored holdings.* Shareholders may arrange to be sponsored by a stockbroker who will require a signed sponsorship agreement. This type of holding is attractive to regular stockmarket traders or those shareholders who have their share portfolio managed by a stockbroker.

Holding statements are issued to shareholders within five business days after the end of any month in which transactions occur that alter the balance of their holding. Shareholders can also access details of their shareholdings and dividends paid on their holdings through the share registry website.

#### Change of address or banking details

Shareholders should notify the share registry in writing immediately of changes of address or banking details for dividends electronically credited to a bank account. Appropriate forms can be downloaded from the share registry website.

#### Change of name

Shareholders should notify the share registry, in writing, if they change their name. The required form can be downloaded from the share registry website. Certified copies of the relevant marriage certificate, deed poll or other supporting documentation should be provided with the notice.

#### Amalgamation of holdings

Shareholders with multiple shareholdings in Wesfarmers who would prefer to consolidate them into one holding, should contact the share registry. The required form can be downloaded from the share registry website.

#### Tax file numbers

While it is not compulsory to provide a tax file number (TFN), if shareholders have not provided a TFN and Wesfarmers pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate. TFN forms can be obtained by contacting the share registry or by downloading the form from the share registry website.

#### Removal from annual report mailing list

Shareholders can choose not to receive an annual report by contacting the share registry. An appropriate form can be downloaded from the share registry website. Shareholders who choose not to receive an annual report will continue to receive all other information, including the notice of annual general meeting and proxy form.

#### Privacy

A copy of the Wesfarmers privacy policy is available on the Wesfarmers website.

#### Publications

The annual report is the main source of information for shareholders. Shareholders are also sent a half-year report which reviews, in summary, the six months to December.

Other publications available on request include the Chairman's address given at the annual general meeting in November and the 2004 Social Responsibility Report, due for publication in November 2004.

Further information and publications about the company's operations are available from the Public Affairs Department, telephone (08) 9327 4251 (if you are within Australia) or (+61 8) 9327 4251 (from outside Australia) or from the Wesfarmers website.